

HIGH COURT OF AUSTRALIA

GUMMOW ACJ,
KIRBY, HAYNE, HEYDON AND CRENNAN JJ

NORTHERN TERRITORY OF AUSTRALIA

APPELLANT

AND

VINCENT COLLINS & ANOR

RESPONDENTS

Northern Territory v Collins [2008] HCA 49
16 October 2008
D2/2008

ORDER

1. *Appeal allowed with costs.*
2. *Set aside the order of the Full Court of the Federal Court of Australia made on 20 September 2007 and in its place order that the appeal to that Court be dismissed with costs.*

On appeal from the Federal Court of Australia

Representation

S J Gageler SC with G R Nicholson for the appellant (instructed by Clayton Utz Lawyers)

G O'L Reynolds SC with N R Murray and R C A Higgins for the respondents (instructed by De Silva Hebron)

Notice: This copy of the Court's Reasons for Judgment is subject to formal revision prior to publication in the Commonwealth Law Reports.

CATCHWORDS

Northern Territory v Collins

Intellectual property – Patents – Infringement – Contributory infringement – Respondents owned patent for methods of producing oils from species of a particular genus of tree – Appellant Territory licensed third party ("ACOC") to enter Crown land and remove timber from trees of this species – *Patents Act* 1990 (Cth), s 117(1) provided that, if "use of a product by a person" would infringe a patent, "supply" of that product by one person to another was an infringement by supplier – Respondents alleged Territory infringed patent by supply of timber to ACOC – Relationship between exclusive rights to exploit patent and s 117 – Meaning of "product" in s 117 where patent said to be infringed is for method or process – Whether "product" confined to product that itself results from use of a patented method or process.

Intellectual property – Patents – Infringement – Contributory infringement – Meaning of "supply" in s 117 – Whether grant of licences to sever and take timber from Crown land constituted "supply" of timber by Territory for purposes of s 117(1) – Relevance of classification of interest of ACOC as realty or personality.

Intellectual property – Patents – Infringement – Contributory infringement – Section 117(2)(b) provided that "use of a product by a person" in s 117(1) meant "any use" if product was not a "staple commercial product" – Meaning of "staple commercial product" – Whether timber taken by ACOC under licences a "staple commercial product".

Words and phrases – "exploit", "method or process", "product", "staple commercial product", "supply", "use of a product by a person".

Patents Act 1990 (Cth), ss 13, 117 and Sched 1.

1 GUMMOW ACJ AND KIRBY J. To assist in appreciation of the issues which arise on this appeal from the Full Court of the Federal Court of Australia (Branson and Sundberg JJ; French J dissenting)¹ it is appropriate first to describe the structure and conduct of the litigation which gave rise to the appeal to the Full Court.

The structure and conduct of the litigation

2 By their amended statement of claim in the Federal Court Mr and Mrs Collins ("the respondents") sued the Northern Territory of Australia ("the Territory") alleging infringement by the Territory of Australian Standard Patent No 742711 ("the Patent") granted pursuant to the *Patents Act* 1990 (Cth) ("the Act"). The respondents are the registered owners of the Patent.

3 The respondents alleged that the Territory had "supplied" to Australian Cypress Oil Company Pty Ltd ("ACOC") certain timber from trees of species of the genus *Callitris* and that ACOC had used that timber to produce an oil called "blue cypress oil" by means of a process claimed by the Patent. The alleged "supply" was said to be found in statutory licences granted to ACOC to take timber from certain Crown lands in the Territory. The terms of the licences and the circumstances in which they were granted are explained in the reasons of Crennan J.

4 The respondents did not join ACOC as a party in the action although against the Territory they pleaded in general terms that the activities of ACOC had amounted to infringement. However, the respondents alleged that the supply by the Territory of the timber to ACOC was an infringement by reason of s 117 of the Act.

5 Section 117 is headed "Infringement by supply of products" and deals with what is known as "contributory infringement", although that expression is not used in the section or elsewhere in the Act.

6 Section 117(1) states:

"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."

The reference in s 117(1) to "the use of a product by a person" is, among other things, a reference to "any use of the product, if the supplier had reason to believe

1 *Collins v Northern Territory* (2007) 161 FCR 549.

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that the person would put it to that use"; but this is so only "if the product is not a staple commercial product". That is the effect of par (b) of s 117(2).

7 The title given to the invention in the Patent is "Methods of producing essential oils from species of the genus callitris" and there are 20 claims. All but claim 12 are claims to a method; claim 12 is a claim to a blue oil containing guaiazulene when produced by a method according to any of claims 1-11. The statement of claim did not identify any particular claim or claims which ACOC was said to have infringed.

8 The primary judge (Mansfield J) on 6 February 2006 directed that there be a separate trial on certain issues. His Honour later explained that the order was made to deal with the alleged contributory infringement by the Territory without extending the hearing into issues of validity of the Patent and infringement by ACOC. The validity of the Patent and infringement by the alleged actions of ACOC were assumed at the separate trial.

9 In many cases the formulation of specific questions to be tried separately from, and in advance of, other issues assists in the more efficient resolution of litigation, but where, as appears to have been the case here, preliminary questions are of mixed fact and law there is a particular need for precision both in formulating the questions and in specifying the facts upon which they are to be decided².

10 At the trial of the separate issues the parties agreed to a reformulation of issues on the footing that, if Mansfield J decided any of the issues adversely to the interests of the respondents, the action itself must be dismissed. His Honour proceeded accordingly and the upshot was that the action was dismissed on 8 December 2006.

11 The respondents' appeal to the Full Court was successful. The decisive holding by the majority was that there was no "staple commercial product" within the meaning of par (b) of s 117(2); French J was of the contrary view. The order of the Full Court set aside the order of the primary judge dismissing the action and remitted the matter to his Honour for such further hearing as was necessary in the light of the joint reasons of the majority of the Full Court.

12 In this Court the ultimate issue must be whether the decision of the Full Court is shown to be erroneous. However, the Territory, as appellant, in its

2 *Bass v Permanent Trustee Co Ltd* (1999) 198 CLR 334 at 357-358 [51]-[53]; [1999] HCA 9; cf *X v Australian Prudential Regulation Authority* (2007) 226 CLR 630 at 658 [99]-[102]; [2007] HCA 4.

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written submissions and their development in oral argument, tended to obscure the matter by identifying the ultimate issue as being:

"[W]hether the grant of a statutory licence to 'go upon Crown lands and take ... timber' can amount by force of s 117 of [the Act] to an infringement of a patent for a method or process (or a product resulting from a method or process) into which the timber is to be used by the licensee as an input."

13 The Territory submits that, in addressing that ultimate issue, three questions arise. They are said to be:

- "(1) Is the supply of an input for a patented method or process (or resulting product) capable of attracting the operation of s 117(1) of the Act?
- (2) Is the grant of such a statutory licence the 'supply' of a 'product' within the meaning [of] s 117(1) of the Act?
- (3) Is the timber to be taken under the statutory licence a 'staple commercial product' within the meaning of s 117(2)(b) of the Act?"

The first question

14 With respect to the first question identified by the Territory, we agree with Hayne J that the variety of quite different cases that may arise for consideration under s 117 provides a powerful reason not to attempt some singular answer to a general question as framed by the Territory.

15 In the Full Court, the majority emphasised, correctly, that there fell outside the scope of the separate questions any enquiry as to infringement of claims of the Patent³ by ACOC. The primary judge had decided the issues as follows⁴:

"[T]he grant of the licences to ACOC in their terms, and in their context, did not amount to the supply of the timber to ACOC so as to expose [the Territory] to liability as a contributory infringer of the patent under s 117(1) of the Act, even if – contrary to my conclusion – the conduct amounted to the use of the timber within s 117(2)(b) of the Act, and even

3 (2007) 161 FCR 549 at 600.

4 *Collins v Northern Territory* (2006) 70 IPR 614 at 619.

assuming on the Collins' favour that the timber was used by ACOC so as to infringe the patent".

16 We would elaborate the analysis in the reasons of Hayne J with four observations. The first stresses what has been said in this Court on several occasions in recent years, to the effect that the fundamental duty of the Court is to give meaning to the legislative command according to the terms in which it has been expressed; legislative history and references to the pre-existing law should not deflect the Court from its duty in resolving an issue of statutory construction which ultimately is always a text based activity⁵.

17 The second observation is that in numerous and significant provisions of the Act, which operate in a wide range of circumstances, a distinction is drawn between an invention which is a product and an invention which is a method or process. Examples include s 13 and the definition of "exploit" (content of patent monopoly), s 16 (co-ownership of patents), s 18(4) (microbiological processes and products), s 70 (pharmaceutical substance claims), s 119 (prior use), s 121A (burden of proof of infringement of a process patent), s 123(2) (innocent infringement), s 133 and the definition of "work" (compulsory licences), s 135 (reasonable requirements of the public), ss 144 and 146 (void licence conditions) and ss 167 and 168 (Crown use).

18 The third observation is that the drawing of the present legislation in this way reflects the understanding of the principles of patent law expounded by this Court in *National Research Development Corporation v Commissioner of Patents* ("NRDC")⁶. The Court emphasised that over time the expression "manner of manufacture" in the Statute of Monopolies of 1623⁷ had been construed so as to include a practice of making, as well as the means of making and the product of making; there was, however, no necessity for the derivation of a "vendible product" in the literal sense, so that an artificially created state of

5 The authorities include *Re Bolton; Ex parte Beane* (1987) 162 CLR 514 at 518, 523, 532, 547; [1987] HCA 12; *Mann v Carnell* (1999) 201 CLR 1 at 45 [143]; [1999] HCA 66; *Re Minister for Immigration and Multicultural Affairs; Ex parte Miah* (2001) 206 CLR 57 at 95 [132]; [2001] HCA 22; *Minister for Immigration and Multicultural Affairs v Yusuf* (2001) 206 CLR 323 at 359 [111]; [2001] HCA 30; *Dossett v TKJ Nominees Pty Ltd* (2003) 218 CLR 1 at 6 [10], 17-18 [57]; [2003] HCA 69; *Truong v The Queen* (2004) 223 CLR 122 at 160 [92], 174 [144]; [2004] HCA 10; *R v Lavender* (2005) 222 CLR 67 at 102 [108]; [2005] HCA 37; *X v Australian Prudential Regulation Authority* (2007) 226 CLR 630 at 662 [112].

6 (1959) 102 CLR 252; [1959] HCA 67.

7 21 Jac 1, c 3.

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affairs, such as (in *NRDC* itself) the inhibition in the growth of weeds by application of a selective herbicide, would suffice. Hence the distinction now drawn in the definition of "exploit" in the Act between an invention which is a product, and an invention which is a method or process which may or may not yield a product.

19 The definition of "exploit" in the dictionary in Sched 1 to the Act is as follows:

"*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."

20 The final observation concerns the position of s 117 in the statutory scheme as a whole. Subject to the Act, a patent gives the patentee the exclusive rights to exploit the invention for the term of the patent (s 13). Infringement proceedings may be brought to enforce those rights (s 120) and relief granted by way of injunction, damages or an account of profits (s 122). While the Act establishes some exceptions to infringement (ss 118-119A) and offers protection for innocent infringement (s 123), no definition is given for what constitutes an "infringement"⁸. The statutory scheme instead fixes attention on the exclusive rights given by the patent, as illuminated by the definition of "exploit" found in the dictionary to the Act.

21 Section 117 does not itself speak to the exclusive rights given by the patent. Rather, the provision identifies conduct and prescribes conditions in which that conduct will be an infringement of the patent. The conduct is the "supply of [a] product" by one person to another. The critical condition for the imposition of liability for infringement is that which is stated first. This is that "the use of [the] product" by the person to whom it is supplied "would infringe [the] patent" (s 117(1)). As the reasons of Hayne J demonstrate, this is informed by the application of s 117(2) and consideration of the exclusive rights given by the patent.

8 cf *Patents Act* 1977 (UK), s 60(1) and in the United States, 35 USC §271.

The second question

- 22 The second question identified by the Territory concerns the treatment of the licences conferred upon ACOC by the Territory under the *Crown Lands Act* (NT) which permitted the licensee to sever and take the timber. This being so, and as Hayne J explains, there was a "supply" of timber within the meaning of s 117(1) of the Act. The result is that the majority of the Full Court correctly held that "the Territory provided or furnished the timber to ACOC, and thus supplied it to ACOC"⁹. This conclusion is not, with respect, to be answered by reference to the classification of the interest granted as one in real property or personal property or as involving the sale of a chattel¹⁰. The Act itself affords the applicable classification and invoking others is likely to mislead.

The third question

- 23 The remaining question is whether the timber taken under the statutory licences was a "staple commercial product" within the meaning of s 117(2)(b) of the Act. We agree that the question should be answered in the affirmative and thus in favour of the Territory, with the result that the appeal to this Court must succeed.
- 24 In his dissenting reasons French J referred¹¹ both to the adoption in earlier legislation of other jurisdictions, particularly in the United States and the United Kingdom, of expressions with an affinity to, but not identity with, the expression "not a staple commercial product" now found in par (b) of s 117(2) of the Act and to the relatively brief treatment of that expression in the report of the Industrial Property Advisory Committee¹² which preceded the enactment of s 117.
- 25 French J referred, in particular, to the enactment of §271 of the *Patent Act* of 1952¹³ which introduced into the statute law of the United States the expression "not a staple article or commodity of commerce suitable for substantial noninfringing use". Contemporary discussion in the United States

9 (2007) 161 FCR 549 at 587.

10 cf (2007) 161 FCR 549 at 578.

11 (2007) 161 FCR 549 at 564-570.

12 Published in 1984 and entitled *Patents, Innovation and Competition in Australia*. See reasons of Hayne J at [44]-[45]. See also reasons of Crennan J at [106], [108], [109].

13 35 USC, ch 28.

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indicates that in legislating in that way the Congress may have proceeded on the footing that the interest in the free flow of commercial goods justified "a flat exclusion of staple articles"¹⁴. When used as an adjective, the word "staple" as then understood in the United States¹⁵ was given the following meanings:

- "(1) Pertaining to, or being a market or staple for, commodities; as, a *staple* town. *Now Rare*.
- (2) Established in commerce; occupying the markets; settled; as, a *staple* trade.
- (3) Fit to be sold; marketable. *Rare*.
- (4) Regularly produced or made in large quantities; belonging to wholesale traffic; hence, principal; chief

'Wool, the great *staple* commodity of England'." (italics in original)

26

Of course, the word "staple" has found its way into the language of a contemporary Australian statute designed to apply to modern conditions in this country. However, when the standard local dictionaries are consulted, they do not yield a meaning different from that in the United States. Thus the word has been defined¹⁶, relevantly:

- "(1) a principal commodity grown or manufactured in a locality.
- (2) a principal commodity in a mercantile field; goods in steady demand; goods of known or recognised quality.
- (3) a principal item, thing, feature, element, or part.
- (4) the fibre of wool, cotton, flax, rayon, etc, considered with reference to length and fineness."

14 Notes, "Contributory Infringement and Misuse – The Effect of Section 271 of the Patent Act of 1952", (1953) 66 *Harvard Law Review* 909 at 915.

15 *Webster's New International Dictionary of the English Language*, 2nd ed (1957), vol II at 2457.

16 *The Macquarie Dictionary*, Federation edition (2001), vol II at 1834.

27 French J expressed his conclusions upon this aspect of the case in terms with which we respectfully agree. His Honour said¹⁷:

"There is a preliminary question about the classification of what was supplied for the purpose of determining whether it was, at the time of supply, a staple commercial product. That translates, in the present case, to the question whether the relevant class is unmilled timber or unmilled timber of the species *Callitris Intratropica*. If the product class were rightly described as unmilled timber there would be no debate. The Court could take judicial notice of the fact that unmilled timber is a staple commercial product.

...

Millable timber in the form of standing trees is not a product manufactured to a particular use. The evidence is clear that in the case of *Callitris Intratropica* its timber is suitable for use in a variety of applications for which timber generally is used. This was the evidence of Mr Brocklehurst and it was not contested. There was evidence to like effect provided from Mr Collins' side of the debate in the submission made on his behalf by his accountant, Mr Cavanagh, in June 1995. The relevant product class to which it belonged, for the purposes of s 117(2)(b) was 'millable timber'.

For the preceding reasons the timber taken by ACOC from the Howard Springs Plantation area pursuant to the licences granted to it by [the Territory] was a staple commercial product for the purposes of s 117 of the Act."

28 As a result, while by reason of the grant of the licences by the Territory there was a supply of timber within the meaning of s 117(1), that supply could not constitute contributory infringement by the Territory, even if (as was not established but was assumed) there were an infringement by ACOC of valid claims of the Patent.

29 It follows that, like Hayne J, Heydon J and Crennan J, we answer the third question in favour of the Territory and this is the sole ground upon which we would allow the appeal. The conclusion that the timber in question is a staple commercial product is, as Hayne J and Heydon J emphasise, determinative of the present matter.

17 (2007) 161 FCR 549 at 582-583.

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Orders

30 It follows from the structure in which the litigation has been cast, that the appeal to this Court should be allowed with costs, the order of the Full Court of the Federal Court set aside and in its place the appeal to that Court should be dismissed with costs. The result will be that the order of the primary judge dismissing the action against the Territory is reinstated.

31 HAYNE J. The facts and circumstances giving rise to this appeal are set out in the reasons of other members of the Court and need not be repeated here.

32 The disposition of the appeal depends upon the proper construction of s 117 of the *Patents Act* 1990 (Cth) ("the Act"). Although the text of the section appears in the reasons of other members of the Court, it is as well to set it out. It provides:

- "(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 instructions 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."

33 The appellant identified three questions of construction of this section:

- "(1) Is the supply of an input for a patented method or process (or resulting product) capable of attracting the operation of s 117(1) of the Act?
- (2) Is the grant of ... a statutory licence [to 'go upon Crown lands and take ... timber'] the 'supply' of a 'product' within the meaning [of] s 117(1) of the Act?
- (3) Is the timber to be taken under the statutory licence a 'staple commercial product' within the meaning of s 117(2)(b) of the Act?"

The first of those questions is cast in general terms not taken from the text of s 117, and divorced from the particular facts of this case. The generality of its expression must not be allowed to direct attention away from some important features of s 117(1).

Engaging s 117

34 Section 117(1) is engaged where there is "the supply of [a] product by one person to another". At the relevant time, the dictionary in Sched 1 to the Act provided that "supply" includes "supply by way of sale, exchange, lease, hire or hire-purchase". The dictionary did not (and does not) contain any definition of "product" but the dictionary's treatment of the word "exploit" distinguishes between "where the invention is a product" and "where the invention is a method or process". Read as a whole, s 117 can be seen to proceed on the footing that the word "product" has its ordinary meaning and is not confined to a patented product or a product that is itself the result of applying a patented method or process.

35 Although s 117(1) is engaged only where there is "the supply of [a] product by one person to another", s 117 is directed to an identified sub-set of such transactions. That sub-set is identified first by the introductory words of s 117(1) – "[i]f the use of a product [the product that is supplied] by a person would infringe a patent" – and second by the amplification in s 117(2) of what is meant by "the use of a product by a person". At the risk of undue abbreviation the amplification provided by s 117(2) can be described as inviting attention, in the particular cases identified in each paragraph of the sub-section, to "only use" (s 117(2)(a)), "known use" (s 117(2)(b)) and "instructed use" (s 117(2)(c)). In many, perhaps most, cases a convenient point at which to begin consideration of an issue about the application of s 117(1) will be to examine what is said to be the use of the product that is alleged to engage the provision. It is *that* use which must be identified as the use which would infringe the patent because the hinge about which s 117 turns is its introductory words: "[i]f the use of a product by a person would infringe a patent".

36 When the question is approached in that way, it will be observed that to ask whether supply of an input for a patented method or process (or resulting product) is capable of attracting s 117(1) may direct attention away from the relevant statutory questions. Those questions are: is there a *supply* of a product; what is the *use* of the product (as use is elucidated in s 117(2)); and does *that* use infringe the patent?

37 The answer that is to be given to the last of the three questions just identified will, of course, turn upon whether the use in question contravenes the patentee's exclusive rights under s 13 of the Act, during the term of the patent, to exploit the invention and to authorise another person to exploit the invention. And that requires close attention to what is meant by "exploit". In particular, it requires close attention to what is said in the dictionary in Sched 1 to the Act about "exploit", namely that:

"*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."

38 The question which the appellant submitted arose in this matter – is the supply of an input for a patented method or process (or resulting product) *capable* of attracting the operation of s 117(1) of the Act? – was framed as it was in the expectation that it could and should be answered in the negative. When the questions presented by s 117 are identified in the manner set out earlier in these reasons it is apparent that a variety of quite different cases may arise for consideration under s 117. In particular, the different kinds of use that are identified in s 117(2) may present radically different issues about the relationship between the relevant use and the patentee's exclusive rights to exploit the relevant invention. That is reason enough not to attempt some singular answer to a general question about when s 117 may be engaged.

39 It is also reason enough to doubt that differences which may be identified in what was said by Gummow J in *Rescare Ltd v Anaesthetic Supplies Pty Ltd*¹⁸ and Black CJ and Lehane J in *Bristol-Myers Squibb Co v F H Faulding & Co Ltd*¹⁹ are usefully expressed in terms of the kind that the appellant's first question employed. Rather, questions about the application of s 117 must be approached with a close focus upon the relevant statutory language. That will require identification of the relevant use of the product and the relevant exclusive rights of the patentee. It is not useful, and may be misleading, to proceed by first seeking to establish a singular and all-embracing explanation of the operation of s 117 by excluding certain types of patent or certain types of product from any possible operation of the section.

40 For the reasons that have been given, it is convenient to deal next with the third of the questions posed by the appellant – is the timber a "staple commercial product"? That question should be examined now because it bears upon whether there was a relevant "use" within s 117(2) and, as indicated earlier in these reasons, s 117 is hinged about the identification of "the use of a product by a person [which] would infringe a patent".

18 (1992) 111 ALR 205 at 242-243.

19 (2000) 97 FCR 524 at 556-559 [87]-[97].

Staple commercial product

41 I agree with Crennan J that a staple commercial product is one that is supplied commercially for various uses. While I agree with her Honour that this does not *mandate* an inquiry into whether there is "an established wholesale or retail market"²⁰, I greatly doubt that a product could be described as a "staple commercial product" if there were not some market for its sale for various uses. The doubt lies in the fact that the product must be a commercial product and that, to be a "staple commercial product", it must be an article of commerce that not only *can be used* in a variety of ways but also is *traded for use* in various ways. But no question of that kind arises here. As Crennan J points out, leaving aside any supply to Australian Cypress Oil Company Pty Ltd ("ACOC"), timber of the kind at issue in this case was supplied to various licensees for a variety of uses. Those transactions were not so few or infrequent as to deny the existence of a market for the supply of that kind of timber for a variety of different uses.

42 The phrase "staple commercial product" must be read as a whole and it must take its meaning from the context in which it sits. In particular, it is to be recalled²¹ that s 117 creates a liability in a supplier of a product where the act of supply would otherwise not infringe a patentee's rights. Section 117 imposes liability on the supplier if use of the product supplied by the person to whom it is supplied would infringe.

43 In this setting "staple commercial product" should not be given a narrow meaning. To do so would expand the classes of supply which are reached by s 117, thus expanding the rights of the patentee where, by hypothesis, the act of supply is not otherwise an infringement of the patentee's monopoly. Further, the meaning given to "staple commercial product" must recognise that the central focus of s 117 falls upon the *use* of a product. The construction of the section must be approached with these two matters at the forefront of consideration.

44 The drafting history of the provision is also important. The 1984 report of the Industrial Property Advisory Committee²² recognised that each of patent law and competition law must, "so far as practical, accommodate the legitimate operation of the other". The need to resolve the tension between inhibiting

20 *Collins v Northern Territory* (2007) 161 FCR 549 at 595 [156].

21 See *Walker v Alemite Corporation* (1933) 49 CLR 643 at 658 per Dixon J; [1933] HCA 39.

22 Australia, Industrial Property Advisory Committee, *Patents, Innovation and Competition in Australia*, 29 August 1984 at 23 [3.2].

competition and providing sufficient protection for the monopoly rights of patentees can be seen as informing the recommendation of that Committee²³ 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 government's published response to the Committee's report²⁴ and, more immediately, the Explanatory Memorandum to the Patents Bill 1990 (Cth)²⁵, both stated an intention to implement this recommendation of the Committee.

45 It will be recalled that the Industrial Property Advisory Committee referred to "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" (emphasis added). The Committee's reference to the supply of goods whose *only* use would infringe is evidently taken up in s 117(2)(a). Likewise, the reference to supply accompanied by a *positive inducement* finds reflection in s 117(2)(c). But the Explanatory Memorandum to the 1990 Bill saw no incongruity between the Committee's recommendations and the addition of reference to "any use of a non-staple commercial product to which the supplier had reason to believe that the receiver would put it"²⁶. And it is this reference which is reflected in s 117(2)(b).

46 This third kind of supply and use may not fit so easily in the class of supplies accompanied by a positive inducement as the kinds of "instructed use" with which s 117(2)(c) deals. But having regard to the text of s 117(2)(b), and to what was said in the Explanatory Memorandum, it appears that s 117(2)(b) was seen as cognate with, if not a species of, supply accompanied by "a positive inducement ... to perform actions which would innocently or knowingly infringe"²⁷. This points against reading s 117(2)(b) as having extended or expansive reach.

23 Recommendation 33: Australia, Industrial Property Advisory Committee, *Patents, Innovation and Competition in Australia*, 29 August 1984 at 67.

24 "Government Response to the Report of the Industrial Property Advisory Committee, 'Patents, Innovation and Competition in Australia'", *Official Journal of Patents, Trade Marks and Designs*, vol 56, no 47, 18 December 1986, 1462 at 1477.

25 Explanatory Memorandum to the Patents Bill 1990 (Cth) at 28.

26 Explanatory Memorandum to the Patents Bill 1990 at 28.

27 Explanatory Memorandum to the Patents Bill 1990 at 28.

47 Section 117(2)(b) cannot be read as dealing only with products that have no more than one reasonable use. Section 117(2)(a) deals with those cases. It follows, therefore, that the cases with which s 117(2)(b) deals at least include the supply of a product which can have more than "one reasonable use". It is then to be observed that the supplier's having reason to believe that the product would be put to an infringing use is not sufficient to engage the provision – the product must be "not a staple commercial product". What meaning is to be given to that phrase?

48 To read "staple commercial product" as identifying a product that is supplied commercially for various uses does not reflect the notion of principal or chief importance sometimes conveyed by the adjective "staple". But as Crennan J concludes, "staple", used adjectivally in the compound expression "staple commercial product", should not be read as directing attention to the economic significance of the product concerned. Rather, it should be read as inviting attention to the variety of uses to which the product both can be, and is in fact, put. It is that variety of uses which, when the product is supplied commercially, makes the product a staple commercial product.

49 As the reasons of Crennan J show, this construction of the provision is not inconsistent with the desire, expressed²⁸ in the government's published response to the report of the Industrial Property Advisory Committee, to harmonise Australian patent law with the laws of Australia's major trading partners. But, as those reasons also show, the laws of the United States of America and the United Kingdom relating to indirect infringement are each expressed in terms that differ in important respects from s 117. There is, therefore, only limited assistance to be gained from considering the expressed desire for harmony with major trading partners.

50 It may be thought that to read "staple commercial product" as identifying a product that is supplied commercially for various uses leaves little effective work to be done by s 117(2)(b). In particular it can be observed that cases of "only one reasonable use" are dealt with in s 117(2)(a), and yet many cases in which a product has various uses will not fall within s 117(2)(b). The resolution of this apparent tension between the two provisions lies in the recognition that s 117(2)(a) is concerned with a product *capable* of only one reasonable use, whereas "staple commercial product" takes its operation from what is seen to occur in the market-place. The two paragraphs pose radically different questions.

28 "Government Response to the Report of the Industrial Property Advisory Committee, 'Patents, Innovation and Competition in Australia'", *Official Journal of Patents, Trade Marks and Designs*, vol 56, no 47, 18 December 1986, 1462 at 1477.

The question posed in s 117(2)(a) is: For what *can* the product be used? By contrast, the question posed in s 117(2)(b) is: To what uses is the product *in fact* put? If it is in fact supplied commercially for various uses, it is a staple commercial product and the supplier of such a product is not to be held liable as an infringer because the person to whom the product is supplied uses it in a way that infringes, even if the supplier has reason to believe that it may be used in that way. Reading the provision on this basis would bring within the reach of s 117(2)(b) the supply, for example, of a product previously traded for only one use where the supplier has reason to believe that it will be used for a new and infringing use. It would leave beyond the reach of s 117 the supply of a product that has previously been traded for various uses unless the supply falls within s 117(2)(c) – where the supplier instructs or induces a particular use which infringes, or advertises the product for that use.

51 Once the product in question in this case is identified as a staple commercial product, it is evident that none of the three kinds of case identified in s 117(2) is engaged. Identification of the product as a staple commercial product takes the case outside s 117(2)(b) and, because the product has more than "one reasonable use", s 117(2)(a) is not engaged. It was not suggested that the case of "instructed use", for which s 117(2)(c) provides, applies in this case.

52 Although the conclusion that the timber in question is a staple commercial product is determinative of the present matter, it is as well to add something shortly about the question of "supply".

Supply

53 The provisions of the dictionary in Sched 1 to the Act dealing with "supply" are referred to earlier in these reasons. It is evident that the word is used in the Act with a large operation.

54 The licences granted to ACOC permitted that company to "go upon Crown Lands and take ... timber". No doubt those licences permitted the licensee to sever standing trees and take the severed timber. And for that permission the licensee was bound to pay royalties fixed by reference to what was taken. Was there a "supply" of the timber? Or was there, as the appellant submitted, no more than the supply of permission to enter and take?

55 Whether there was a supply of timber is not to be answered by attempting to classify what was granted as an interest in realty or personalty²⁹. Nor is it to be answered by asking whether there was a sale of a chattel³⁰ or by asking, as the

29 cf (2007) 161 FCR 549 at 577 [80] per French J.

30 cf (2007) 161 FCR 549 at 577-578 [81]-[82].

17.

appellant submitted, whether the conditions of the licence were enforceable only by forfeiture. Rather, it is to be observed that the licences permitted the licensee to sever and take the timber. That being so there was a supply of the timber. The appellant supplied the licensee with the timber by granting the licences it did.

Conclusion and order

56 For these reasons, I agree that the appeal should be allowed with costs and that consequential orders should be made in the form proposed by Crennan J.

- 57 HEYDON J. I agree with Crennan J's conclusion that the Northern Territory is protected by s 117(2)(b) of the *Patents Act* 1990 (Cth), and with the reasons she has given for that conclusion. That conclusion is a sufficient basis for allowing the appeal and for making the other orders she proposes. It is therefore not necessary to consider the other two bases which the Northern Territory urged in support of an order allowing its appeal.

58 CRENNAN J. Since 21 January 1999 the respondents, Vincent and Maryann Collins, have been the registered proprietors of standard patent No 742711 for an invention entitled "Methods of producing essential oils from species of the genus *callitris*" ("the patent"). The essential oil relevant to the appeal is said to be useful in aroma therapy, and in the manufacture of cosmetics and body care products; it may also possess anti-microbial properties and preservative qualities in the treatment of wood. It appears that an appealing feature of the oil is its azure colour.

59 Claim 1 of the patent describes "[a] method of producing a blue, guaiazulene-containing oil comprising the step of obtaining the oil from a mixture of the bark and wood of *Callitris intratropica*". Claims 2 to 11 (inclusive) deal with method claims. Whilst the emphasis in the proceedings was on method claims, claim 12 was a product claim for "[a] blue, guaiazulene-containing oil when produced by a method according to any one of" the preceding claims.

60 This appeal from a decision of a Full Court of the Federal Court of Australia³¹ (the "Full Court") concerns the allegation by Mr and Mrs Collins that the appellant, the Northern Territory of Australia (the "Northern Territory"), is liable under s 117³² of the *Patents Act* 1990 (Cth) (the "Act") for infringement by supply of timber from trees of species of the genus *Callitris* to Australian Cypress Oil Company Pty Ltd ("ACOC"). It is alleged that ACOC, which was licensed by the Northern Territory to take timber from one of its plantations, used the bark and wood of the timber to produce infringing oil by use of one of the methods claimed in the patent. The allegedly infringing oil was also said to have been sold and offered for sale by ACOC.

The facts

61 Species of the genus *Callitris* include *Callitris intratropica*, commonly known as the cypress pine, which can be found in the wild and in plantations in the Northern Territory, including at the Howard Springs Plantation which is situated on Crown lands under the *Crown Lands Act* (NT) (the "Crown Lands Act"). The Northern Territory government invested in planting cypress pine at various sites within the Northern Territory during the 1960s in the expectation that it would be a commercial timber producing crop. The evidence disclosed that by November 1995 this expectation had been disappointed and the timber from the cypress pine plantations was no longer considered to be of suitable

31 *Collins v Northern Territory* (2007) 161 FCR 549.

32 Set out later in these reasons at [72].

commercial quality for the original purposes for which the trees had been planted³³.

62 On 30 April 1993 Mr Collins was granted a permit from the Conservation Commission of the Northern Territory (then responsible for the administration of the Howard Springs Plantation) to undertake "Crop thinning of *Callitris Intratropica*" for a term of 12 months. That permit required the payment of a royalty of 20 cents per stem felled.

63 There was a dispute (which is not relevant to the present appeal) as to whether Mr Collins had been issued with a second permit to fell the cypress pine for the period 18 October 1994 to 17 October 1999.

64 At some point after 1993, the precise date of which is not clear, the Howard Springs Plantation ceased to be part of a reserve, and reverted to Crown lands within the meaning of the Crown Lands Act³⁴. From 1998 until 2001 the government of the Northern Territory granted to ACOC four miscellaneous licences, pursuant to s 91 of the Crown Lands Act, to enter and take the stems of the cypress pine³⁵ from various areas within the Howard Springs Plantation. Those licences were subject to terms and conditions prescribed in the Crown Lands Regulations as provided by s 94(2) of the Crown Lands Act, and reg 46 provided that the Minister "may determine a royalty on the material removed from the land".

65 It was not in contest that although original plans for exploitation of the various cypress pine plantations were shelved, there remained several commercial uses which could be made of the timber harvested or collected from the Howard Springs Plantation. These were milling, producing woodchip mulch from surplus materials, oil extraction, and producing potting mix and firewood. A forester from the Department of Natural Resources, Environment and the Arts amplified that information by deposing that he was aware that the trees in question have been used and were still being used (at the time of swearing his affidavit) as a constituent element in poles, fence posts and rails, flooring, light construction, oil extraction, mulch and certain traditional indigenous uses. In turn, these indigenous uses were confirmed and clarified in an expert's report.

33 *Collins v Northern Territory* (2006) 70 IPR 614 at 620 [30].

34 The definition of "Crown lands" in s 3 encompassed land formerly of the Commonwealth which became vested in the Northern Territory under s 69(2) of the *Northern Territory (Self-Government) Act* 1978 (Cth).

35 An activity which was subject to penalty if conducted without a lease, licence or lawful authority, as to which see s 102 of the Crown Lands Act.

Reasons for which licensees, other than ACOC, sought permission from the Northern Territory to harvest the trees included the production of sawdust, woodchipping and making golf club poles.

ACOC's licences

66 The first licence granted to ACOC was Miscellaneous Licence No 1858, granted on 3 July 1998, pursuant to a competitive tender process. It was a "Licence to go upon Crown Lands and take there from timber". The licence defined the areas of land covered by it and contained a condition requiring payment of "royalties of \$2.50 ... per tree". The licence ran from 6 July 1998 to 6 August 1998 and contained the following terms:

- "14. The licensee will, in respect of the licenced land, ensure that all plantation trees including stumps are removed.
- 15. The licensee acknowledges that after extraction of the stumps, that he is responsible for rehabilitation of the site to a standard which allows reasonable access by a tractor/slasher. All holes and other safety hazards shall be smoothed out (flatblading standard is envisaged) to the satisfaction of the Assistant Secretary, Land Administration, Department of Lands, Planning and Environment.
- 16. The licensee acknowledges that Conditions 14 & 15 above will be undertaken to the satisfaction of the Department of Lands, Planning and Environment, at nil cost to the Territory.
- 17. If the licensee fails to observe and carry out or cause to be carried out the conditions outlined in Conditions 14 & 15 above of the licence on his part, the Territory will have a right to enter onto the licenced land and do all things necessary to that end and the expense and costs thereof, as determined by the Minister, will be borne and payable by the licensee on demand."

67 The second, third and fourth licences (Miscellaneous Licences Nos 1863, 1869 and 1875) ran, in succession, from 1 April 1999 to 30 June 2001. Unlike the first licence, each of these licences required a royalty fixed at 5% of the "'FOB' price"³⁶ of the essential oil and any other products derived from the timber harvested in accordance with the licence.

36 Defined as the "Free on Board price at Darwin received by the licensee for its products" in accordance with "documentation submitted to the Department, Lands, Planning and Environment".

68 The second, third and fourth licences contained terms relevantly the same as Conditions 14, 15 and 17 extracted above from the first licence. In addition, they contained terms relevantly identical to the following terms which appeared in the second licence:

"19. It will be a condition of the licence that all works carried out are in accordance with an approved Site Management Plan (Attachment A) agreed by [ACOC] and the Department Lands, Planning and Environment.

...

22. The licensee acknowledges that Condition 20 & 21^[37] above will be undertaken in accordance with the Site Management Plan submitted to the Department of Lands, Planning & Environment, at nil cost to the Territory."

The litigation

69 The application for the patent was filed on 8 July 1998 and Mr and Mrs Collins were entered on the Register of Patents as proprietors on 21 January 1999. They commenced proceedings in the Federal Court of Australia alleging infringement of the patent by the Northern Territory under s 117 of the Act. The Northern Territory's liability was said to derive from its supply of timber (alleged not to be a staple commercial product) to ACOC, from which timber ACOC, without the licence of Mr and Mrs Collins, would extract blue cypress oil by means of a process (application of steam distillation to the bark and wood of the timber) said to be protected by the patent.

70 In its Defence, the Northern Territory denied the validity of the patent and did not admit that ACOC used the timber to produce blue cypress oil by a process protected by the patent. As well, the Northern Territory denied that s 117 was engaged by the grant of the licences, irrespective of whether the patent was valid or whether ACOC used the timber to produce blue cypress oil by a process which infringed the patent.

Separate trial of issues

71 The issues which were the subject of a separate trial³⁸ are best understood by reference to s 117 and the definition of "supply" in Sched 1 to the Act.

37 Conditions 20 and 21 were substantively the same as Conditions 14 and 15 of the first licence, set out above.

38 Under O 29 r 2 of the Federal Court Rules.

72 Section 117 of the Act deals with "Infringement by supply of products" and provides:

- "(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 instructions 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."

73 At the time the licences were entered into, Sched 1 to the Act defined "supply" to include "supply by way of sale, exchange, lease, hire or hire-purchase".

74 The primary judge (Mansfield J) directed that there be a separate trial of issues as to whether³⁹:

- "a. the [Northern Territory] has supplied a product to [ACOC] the use of which would infringe the patent;
- b. the product supplied by the [Northern Territory] ... is not a staple commercial product and its use is one which the [Northern Territory] had reason to believe would be used to produce a blue coloured oil by a process protected by the patent."

39 The excised part of the question concerned an issue under s 117(2)(a) which was not pressed by Mr and Mrs Collins at trial: *Collins v Northern Territory* (2006) 70 IPR 614 at 616 [10].

75 The first issue addressed s 117(1) of the Act and the second issue concerned s 117(2)(b).

76 At trial Mr and Mrs Collins contended that an infringement by supply would be established by a "use" which met the description set out in s 117(2)(b). They accepted that the timber in question is capable of more than one reasonable use and they did not rely upon pars (a) or (c) of the sub-section.

77 Something more needs to be said about the relevant method claims of the patent and the use which ACOC made of the timber which it harvested under the licences.

78 It is stated in the body of the patent that:

"[t]he oil will typically be obtained from the bark and wood by distillation and usually by a hydro-distillation or steam distillation method".

79 Claim 3 covers "[a] method according to any one of claims 1 to 3 wherein the oil is obtained from the bark and wood by distillation". Claim 4 claims "[a] method according to claim 4 wherein the distillation is hydro-distillation or steam distillation".

80 Whilst the validity of the patent remains in issue on the pleadings, it is important to note that validity was assumed by the primary judge for the purposes of testing whether the acts of the Northern Territory constituted infringement by supply under s 117 of the Act. His Honour also assumed for those purposes "that ACOC's alleged actions have infringed [the patent]"⁴⁰.

Decision of the primary judge

81 The primary judge determined the separate issues adversely to Mr and Mrs Collins, and dismissed their application.

82 Mansfield J considered that what had been supplied by the Northern Territory to ACOC was the timber, and ACOC then took the bark and wood of the timber and produced blue cypress oil from them⁴¹. His Honour noted the timber, or the bark and wood from the timber, is "but an input into the process by which" the oil was produced⁴².

40 *Collins v Northern Territory* (2006) 70 IPR 614 at 616 [9].

41 *Collins v Northern Territory* (2006) 70 IPR 614 at 617 [15].

42 *Collins v Northern Territory* (2006) 70 IPR 614 at 617 [16].

83 However, the main basis for his Honour's conclusion, that there was no "supply" within the meaning of s 117, was his finding that the licences were merely "permissive"⁴³. His Honour said the word "supply" does⁴⁴

"not readily accommodate a licence which merely enabled ACOC to go upon the territory's land at Howard Springs and to harvest the trees there and to remove the timber so harvested. There is no positive act of the territory which, in terms of the definition of 'supply', amounted to the 'sale, exchange, lease, hire or hire-purchase' or the offer to supply by way of sale etc of the timber."

84 His Honour then considered, if he were wrong on the "supply" question, whether what had been supplied was a "staple commercial product". Mr and Mrs Collins had accepted that, but for the fact that the Northern Territory had "written off" the Howard Springs Plantation as a commercial crop for use as timber, the timber in question would have been a "staple commercial product"⁴⁵.

85 The primary judge found that the trees and timber retained commercial value to the Northern Territory, and that there were residual commercial uses for them, for example, use as milled timber, woodchip mulch, pine oil extraction, potting mix and firewood⁴⁶. His Honour concluded that the decision of the Northern Territory "not to maintain the plan to allow further growth of the trees on the Howard Springs land for harvesting for timber"⁴⁷ did not deprive the timber of its character as a "staple commercial product". His Honour also made a finding of fact that the Northern Territory had reason to believe that ACOC would use the bark and wood from the timber in combination for the purpose of producing blue cypress oil⁴⁸.

43 *Collins v Northern Territory* (2006) 70 IPR 614 at 619 [25].

44 *Collins v Northern Territory* (2006) 70 IPR 614 at 619 [26].

45 *Collins v Northern Territory* (2006) 70 IPR 614 at 620 [30]. The appeal to the Full Court was conducted on the assumption that this concession had not been made: *Collins v Northern Territory* (2007) 161 FCR 549 at 558 [21].

46 *Collins v Northern Territory* (2006) 70 IPR 614 at 621 [34].

47 *Collins v Northern Territory* (2006) 70 IPR 614 at 621 [39].

48 *Collins v Northern Territory* (2006) 70 IPR 614 at 622 [45].

Decision of the Full Court

86 The appeal of Mr and Mrs Collins to the Full Court was allowed by a majority (Branson and Sundberg JJ, French J dissenting).

87 The majority considered that the primary judge had erred in characterising the licences to ACOC as merely "permissive". Condition 14 of the first licence, and its successors in subsequent licences, were considered by the majority as plainly requiring that all plantation trees be removed, and that ACOC was obliged to harvest the trees and remove the timber from the land⁴⁹. In all the circumstances their Honours concluded that the Northern Territory had supplied the timber to ACOC, and the "timber so supplied was felled but unmilled trees of the species *Callitris Intratropicus*"⁵⁰.

88 Whilst not attempting to state a comprehensive test for determining what constitutes a "staple commercial product", Branson and Sundberg JJ considered "that a quality of such a product is that it is an item of commerce in the sense that it is ordinarily available for purchase from an entity that trades in that product"⁵¹. On all the evidence, including that of the difficulty of obtaining licences for harvesting cypress pine from the Department of Lands, Planning and Environment, their Honours were satisfied that the timber in question was not a staple commercial product⁵².

89 In dissent, French J considered that the concept of "supply of a product" in s 117 did not extend to "the conveyance of interests in land"⁵³ such as grants in the nature of a *profit à prendre*⁵⁴ which his Honour considered described the licences.

49 *Collins v Northern Territory* (2007) 161 FCR 549 at 586 [119].

50 *Collins v Northern Territory* (2007) 161 FCR 549 at 587 [124].

51 *Collins v Northern Territory* (2007) 161 FCR 549 at 596 [158].

52 *Collins v Northern Territory* (2007) 161 FCR 549 at 596 [159].

53 *Collins v Northern Territory* (2007) 161 FCR 549 at 576 [76].

54 *Collins v Northern Territory* (2007) 161 FCR 549 at 582 [95] following *Australian Softwood Forests Pty Ltd v Attorney-General (NSW)*; *Ex rel Corporate Affairs Commission* (1981) 148 CLR 121; [1981] HCA 49; *Vanstone v Malura Pty Ltd* (1988) 50 SASR 110; *Corporate Affairs Commission v ASC Timber Pty Ltd* (1989) 18 NSWLR 577; *Permanent Trustee Australia Ltd v Shand* (1992) 27 NSWLR 426.

90 After construing the collocation "staple commercial product", his Honour also held that the timber, being millable timber in the form of standing trees, was such a product and accordingly Mr and Mrs Collins could not rely upon s 117(2)(b) to establish infringement by supply⁵⁵.

91 All members of the Full Court rejected the Northern Territory's contention (by way of a notice of contention) that the supplied product (the timber) and the product said to have been used for infringement (the milled wood and stripped bark) were relevantly different for the purposes of s 117⁵⁶.

Relevant provisions of the Act

92 Section 117 and the definition of "supply" in Sched 1 to the Act have been set out above⁵⁷. A number of other related provisions in the Act are also relevant.

93 Section 13(1) of the Act grants, to an owner of a patent, "exclusive rights, during the term of the patent, to exploit the invention and to authorise another person to exploit the invention".

94 The term "exploit" in relation to an invention is defined in Sched 1 to the Act to include:

- "(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."

95 An "invention" is defined in Sched 1 to the Act to mean:

"any manner of new manufacture the subject of letters patent and grant of privilege within section 6 of the Statute of Monopolies, and includes an alleged invention".

55 *Collins v Northern Territory* (2007) 161 FCR 549 at 582-583 [99].

56 *Collins v Northern Territory* (2007) 161 FCR 549 at 583 [101] per French J, 596-597 [163] per Branson and Sundberg JJ.

57 At [72]-[73].

96 This definition has been a constant throughout Australia's patents legislation⁵⁸ and can be traced back to the patents legislation of the United Kingdom⁵⁹. The definition inevitably directs attention to the patentee's rights under s 6 of the Statute of Monopolies of 1623 which included the right to the "sole working or making of any manner of new manufactures" which others "shall not use"⁶⁰.

97 There is no definition of "product" or "staple commercial product" in the Act.

Questions

98 Three questions arose on this appeal concerning the interpretation of s 117 of the Act. First, whether the literal meaning of s 117(1) has the consequence that supply of an "input" into a patented method or process (or an input into a resulting product) is incapable of engaging the operation of s 117(1) of the Act. Second, whether the grant of statutory licences to ACOC under the Crown Lands Act constituted a "supply" of a "product" within the meaning of s 117(1). Third, whether the "product", the supply of which was alleged to breach s 117, namely timber, was a "staple commercial product" within the meaning of s 117(2)(b). The reasons which follow explain why the Northern Territory succeeds on the appeal but only in relation to the third question.

Applicable principles

99 The outcome of the appeal turns on the proper construction of s 117. The applicable principles of construction can be shortly stated. Construction must begin with a consideration of the text itself⁶¹. The meaning of the text cannot always be determined in isolation from its context, which includes the general

58 *Patents Act* 1903 (Cth), s 4; *Patents Act* 1952 (Cth), s 6.

59 See for example *Patents, Designs, and Trade Marks Act* 1883 (UK), s 46 and *Patents and Designs Act* 1907 (UK), s 93.

60 21 Jac I c 3.

61 *Roy Morgan Research Centre Pty Ltd v Commissioner of State Revenue (Vict)* (2001) 207 CLR 72 at 77 [9] per Gaudron, Gummow, Hayne and Callinan JJ, 89 [46] per Kirby J; [2001] HCA 49; *Stevens v Kabushiki Kaisha Sony Computer Entertainment* (2005) 224 CLR 193 at 206 [30] per Gleeson CJ, Gummow, Hayne and Heydon JJ, 240-241 [167]-[168] per Kirby J; [2005] HCA 58; *Director of Public Prosecutions (Vic) v Le* (2007) 232 CLR 562 at 586 [85] per Kirby and Crennan JJ; [2007] HCA 52.

purpose and policy of the provision⁶², in particular the mischief⁶³ which the statute was designed to remedy⁶⁴. Secondary material seeking to explain the words of a statute cannot displace the clear meaning of the text of a provision⁶⁵, not least because such material may confuse what was "intended ... with the effect of the language which in fact has been employed"⁶⁶.

Indirect infringement

100 It is convenient to consider the legislative history of s 117 of the Act and comparative provisions in the United States of America and the United Kingdom before turning to competing submissions on the construction of s 117 which raised both historical and comparative considerations. Section 117 covers infringement by supplying another person with a product, the other person being the direct infringer. Such an act has been referred to over time as "indirect", "contributory", "participatory" or "secondary" infringement.

101 Indirect infringement was referred to in the Royal Grant⁶⁷, once part of the words of grant of Letters Patent deriving from the Statute of Monopolies. The patentee received the "especial licence, full power, sole privilege, and authority ... [to] make, use, exercise and vend the ... invention". It was for the patentee alone to "have and enjoy the sole use and exercise and the full benefit of the ... invention"; relevantly, others were commanded "that they do not ... either directly or *indirectly* make use of or put in practice the ... invention, nor in anywise imitate the same" (emphasis added).

62 *Commissioner for Railways (NSW) v Agalinos* (1955) 92 CLR 390 at 397 per Dixon CJ; [1955] HCA 27, quoted with approval in *Project Blue Sky Inc v Australian Broadcasting Authority* (1998) 194 CLR 355 at 381 [69] per McHugh, Gummow, Kirby and Hayne JJ; [1998] HCA 28; see also *Acts Interpretation Act* 1901 (Cth), ss 15AA and 15AB.

63 *Heydon's Case* (1584) 3 Co Rep 7a at 7b [76 ER 637 at 638].

64 *CIC Insurance Ltd v Bankstown Football Club Ltd* (1997) 187 CLR 384 at 408 per Brennan CJ, Dawson, Toohey and Gummow JJ; [1997] HCA 2.

65 *Nominal Defendant v GLG Australia Pty Ltd* (2006) 228 CLR 529 at 538 [22] per Gleeson CJ, Gummow, Hayne and Heydon JJ; [2006] HCA 11.

66 *Hilder v Dexter* [1902] AC 474 at 477 per Earl of Halsbury LC.

67 Blanco White, *Patents for Inventions*, 4th ed (1974) at 591-592 [14-38]. See also Aldous, Falconer and Aldous, *Terrell on the Law of Patents*, 11th ed (1965) at 135 [341].

102 Notwithstanding that reference, the precise boundaries of "indirect" infringement at common law proved elusive. In particular, the sale or supply of an article, including material "produced by nature" (such as timber), which could in any way be used in the making of an article covered by a patent was not an infringement⁶⁸. There were, however, some acts of indirect infringement which could give rise to remedies at the patentee's suit. These included the separate tort of knowingly inducing or persuading another to infringe⁶⁹, acting as a joint tortfeasor in a conspiracy or common design to directly infringe⁷⁰ and ordering another, for example an agent, to do an infringing act⁷¹. In each of these examples the availability of remedies turned on the indirect infringer being a "contributor" or "party" to the direct infringement⁷².

103 The limitations of the common law position are stated in *Blanco White, Patents for Inventions*⁷³:

68 *Townsend v Haworth* (1875) 12 Ch D 831(n); *Briggs & Co v Lardeur and Lambert* (1884) 1 RPC 126; *Dunlop Pneumatic Tyre Co Ltd v David Moseley & Sons Ltd* [1904] 1 Ch 612; *Sarason v Frénay* [1914] 2 Ch 474 at 480-481 per Warrington J; *Cincinnati Grinders Inc v BSA Tools Ltd* (1930) 48 RPC 33; *Walker v Alemite Corporation* (1933) 49 CLR 643; [1933] HCA 39; *Firth Industries Ltd v Polyglas Engineering Pty Ltd* (1975) 132 CLR 489 at 497 per Stephen J; [1975] HCA 25; *Ramset Fasteners (Aust) Pty Ltd v Advanced Building Systems Pty Ltd* (1999) 164 ALR 239; cf *Windsurfing International Inc v Petit* [1984] 2 NSWLR 196 at 207 per Waddell J (the sale of a complete set of parts in kit form which when assembled came within the claims of the patent).

69 *Innes v Short and Beal* (1898) 15 RPC 449; *Belegging-en Exploitiemaatschappij Lavender BV v Whitten Industrial Diamonds Ltd* [1979] FSR 59 at 66-67 per Buckley LJ.

70 *Incandescent Gas Light Co Ltd v New Incandescent Mantle Co* (1898) 15 RPC 81; *Morton-Norwich Products Inc v Intercen Ltd* [1976] FSR 513 at 521, 524-526 per Graham J; *Belegging-en Exploitiemaatschappij Lavender BV v Whitten Industrial Diamonds Ltd* [1979] FSR 59 at 64 per Buckley LJ; *Rotocrop International Ltd v Genbourne Ltd* [1982] FSR 241.

71 *Sykes v Howarth* (1879) 12 Ch D 826.

72 See, for example, *Dunlop Pneumatic Tyre Co Ltd v David Moseley & Sons Ltd* [1904] 1 Ch 612 at 618 per Vaughan Williams LJ.

73 4th ed (1974) at 99 [3-210]; see also Cornish and Llewelyn, *Intellectual Property: Patents, Copyright, Trade Marks and Allied Rights*, 6th ed (2007) at 260 [6-17]; Duffy and Lahore, *Lahore Patents, Trade Marks and Related Rights*, vol 1 at 18,359 [18,270].

"The sale of materials for, or apparatus for carrying out, a patented process, does not infringe a claim to the process, even though it be intended that the purchaser should infringe, and probably even though what is sold is an apparatus that could be used in no other way.

If ... such materials, be in fact used, the use is of course an infringement" (footnotes omitted).

104 The rationale behind the narrow common law view of what constituted participation in infringement was explained by Dixon J in *Walker v Alemite Corporation*⁷⁴:

"The basis upon which these rules rest is that whatever is not included in the monopoly granted is *publici juris* and may be freely used as of common right."

105 The legislatures of Australia, the United States of America and the United Kingdom all considered it necessary to intervene to modify the common law position.

Australia

106 The difficulties of enforcing patents against indirect or contributory infringers at common law were considered by the Industrial Property Advisory Committee ("IPAC") in its report of 29 August 1984⁷⁵ (the "IPAC Report"). Central to the endeavours of IPAC was consideration, and proper management, of the tensions between patent law and competition law⁷⁶, a tension familiar to intellectual property lawyers in the United States of America since the passing of the *Sherman Act* 1890⁷⁷ and the *Clayton Act* 1914⁷⁸. An account of relevant developments in respect of patents can be found in a decision of the Supreme Court of the United States *Dawson Chemical Co v Rohm & Haas Co*⁷⁹ ("*Dawson*").

74 (1933) 49 CLR 643 at 658.

75 Industrial Property Advisory Committee, *Patents, Innovation and Competition in Australia*, 29 August 1984.

76 IPAC Report at 12-14 [1.2], 22-27 [3.1]-[3.5].

77 15 USC §§1-7.

78 15 USC §§12-27.

79 448 US 176 (1980).

107 The patentee in *Dawson* owned a patented method for using an unpatented product, propanil, to inhibit the growth of certain weeds. The defendant supplied propanil to farmers (which was not a direct infringement of the method patent), with instructions to persons receiving a supply, to apply propanil in accordance with the patented method. A majority of the Supreme Court of the United States found that the defendant's conduct was an indirect or contributory infringement of the patented method under cognate statutory provisions about which more will be said later.

108 It is sufficient for present purposes to note that IPAC referred to the facts of *Dawson* to illustrate the mischief which it was addressing in its report, namely that "[a] patentee may encounter serious difficulty in enforcing his patent where it is prone to infringement by an eventual consumer who is supplied by an unauthorised person with the means to infringe"⁸⁰. IPAC then explained its support for legislation which provided a discrete action for "infringement by supply" directed at suppliers of "goods, materials or parts" to direct infringers⁸¹:

"We believe that it would be more effective, realistic and just for the patentee to be able to take action against the supplier or middleman who facilitates the commission of the infringing act by the ultimate consumer. The most common example of indirect, secondary or contributory infringement is where goods, materials or parts are supplied to a consumer with the intention that they be used, consumed or assembled in a way which constitutes an infringement of a patent." (footnote omitted)

109 Recommendation 33 of the IPAC Report, subsequently endorsed⁸² and implemented by the government⁸³, stated:

"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".

80 IPAC Report at 66 [14.2].

81 IPAC Report at 67 [14.2].

82 "Government Response to the Report of the Industrial Property Advisory Committee, 'Patents, Innovation and Competition in Australia'", *Official Journal of Patents, Trade Marks and Designs*, 18 December 1986, Vol 56, No 47, 1462.

83 Explanatory Memorandum to the Patents Bill 1990 (Cth) at 28 [170].

110 One of the reasons given by the government for accepting the recommendation and introducing s 117 was said to be to "harmonise [Australian patent law] with the laws of Australia's major trading partners"⁸⁴.

United States of America

111 One of those major trading partners, the United States of America, had introduced a statutory provision governing "indirect" or "contributory" infringement in the *Patent Act* 1952 codified at 35 USC §271, which currently relevantly provides as follows:

"(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 noninfringing use, shall be liable as a contributory infringer."

112 In *Dawson* Blackmun J, delivering the opinion of the majority, remarked⁸⁵:

"[T]he language of §271 is generic and freighted with a meaning derived from the decisional history that preceded it."

113 His Honour summarised that decisional history⁸⁶ and recognised, as Dixon J had done in *Walker v Alemite Corporation*, that "an inevitable concomitant of the right to enjoin another from contributory infringement is the capacity to suppress competition in an unpatented article"⁸⁷.

84 "Government Response to the Report of the Industrial Property Advisory Committee, 'Patents, Innovation and Competition in Australia'", *Official Journal of Patents, Trade Marks and Designs*, 18 December 1986, Vol 56, No 47, 1462 at 1477.

85 448 US 176 at 187 (1980).

86 448 US 176 at 187-197 (1980).

87 448 US 176 at 197 (1980).

United Kingdom

114 Following the Declaration on the Adjustment of National Patent Law annexed to the Convention for the European Patent for the Common Market (the "Community Patent Convention") of 1975⁸⁸, a statutory provision specifically aimed at "infringement by supply" was introduced into the *Patents Act* 1977 (UK). The need for a provision governing indirect infringement had been canvassed by the Banks Committee⁸⁹ and the Department of Trade in the United Kingdom⁹⁰, both of which recommended that infringement should encompass some acts referred to at common law as acts of indirect or contributory infringement. In particular, the Department of Trade White Paper recommended that a patentee should have a right to a remedy "if an essential element of [a patentee's] invention is supplied ... with the intention that it should be used to carry out the patented invention"⁹¹.

115 Section 60 of the *Patents Act* 1977 (UK) defines infringement and relevantly provides:

- "(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,

88 Article 26 of the Community Patent Convention covered "indirect infringement" and is set out by French J in *Collins v Northern Territory* (2007) 161 FCR 549 at 568-569 [48].

89 Great Britain, *The British Patent System: Report of the Committee to Examine the Patent System and Patent Law*, (1970) Cmnd 4407.

90 Department of Trade, *Patent Law Reform*, (1975) Cmnd 6000.

91 Department of Trade, *Patent Law Reform*, (1975) Cmnd 6000 at 5 [18].

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."

116 It is now convenient to turn to the questions raised in the appeal.

Question 1: Does s 117 cover supply of an "input" into a process (or resulting product)?

117 The Northern Territory contended that the resolution of this first question turned on resolving the correctness of the supposedly competing views of s 117(1) evinced by Gummow J in *Rescare Ltd v Anaesthetic Supplies Pty Ltd* ("*Rescare*")⁹² and Black CJ and Lehane J in *Bristol-Myers Squibb Co v F H Faulding & Co Ltd* ("*Bristol-Myers*")⁹³.

118 *Rescare* mainly concerned allegations of infringement of a product patent. The question arose whether s 117 operated to render the direct infringer of the product patent also an "infringer by supply" under s 117 in circumstances where the infringing product was sold or offered for sale with instructions to use the infringing product in accordance with a related patented method.

119 In *Rescare* Gummow J said⁹⁴:

"[A] pre-condition to the operation of s 117 in relation to a method claim ... is that there is a product the use of which by the [supplier] would infringe [the method claim]. In other words, that user would have to amount an 'exploitation' within the monopoly conferred by s 13, which is to be read with para (b) of the definition of 'exploit'.

... [W]here the invention relevantly claims a method or process, exploitation occurs, *other than by use of the method or process*, only by the doing of an act mentioned in para (a) of the definition of 'exploit'. There must be an act done 'in respect of a product resulting from such use'." (emphasis added)

92 (1992) 111 ALR 205.

93 (2000) 97 FCR 524.

94 (1992) 111 ALR 205 at 242-243.

This reasoning was upheld on appeal by Lockhart J (with whom Wilcox J agreed) in *Anaesthetic Supplies Pty Ltd v Rescare Ltd*⁹⁵ and subsequently followed in *Sartas No 1 Pty Ltd v Koukourou & Partners Pty Ltd*⁹⁶.

120 Relying on Gummow J in *Rescare* and s 13 of the Act, the Northern Territory urged that the expression "use of a product [which] would infringe" in s 117(1) must be limited to the circumstance where the product supplied results from the use of the patented method. The argument assumes that Gummow J's reasoning in *Rescare* applied to exploitation "by use of the method or process". This argument was also supported by a detailed comparison of s 117 with cognate provisions in the United States of America and the United Kingdom set out above. It was submitted that the words used in each of the cognate provisions were substantially different and apt to include products supplied *preparatory* to the use of a patented method, whereas the words used in s 117 were not apt to include such products.

121 Adopting the reasoning of Black CJ and Lehane J in *Bristol-Myers*⁹⁷, Mr and Mrs Collins countered that such a construction of s 117 would give it a very limited operation and result in considerable overlap between "infringement by supply" covered by s 117 and acts of direct infringement. They supported the construction of s 117 advanced by Ann Monotti⁹⁸, which found favour with Black CJ and Lehane J in *Bristol-Myers*⁹⁹. Their Honours rejected the proposition that where an invention is a method or process, use of a product exploits the invention only if the product is one which results from use of the method or process¹⁰⁰.

122 Section 13, and the definition of "exploit" in Sched 1, were intended to define the exclusive rights to exploit the invention, given by a patent, in clear terms, so as to avoid any obscurities in the previous language of "make, use,

95 (1994) 50 FCR 1 at 24.

96 (1994) 30 IPR 479 at 495 per Gummow J.

97 (2000) 97 FCR 524 at 556-559 [87]-[97].

98 Monotti, "Contributory Infringement of a Process Patent under the Patents Act 1990: Does it Exist after Rescare?", (1995) 6 *Australian Intellectual Property Journal* 217 at 226-228.

99 (2000) 97 FCR 524 at 556-559 [87]-[97].

100 (2000) 97 FCR 524 at 558-559 [95]. The decision has been followed in *Leonardis v Theta Developments Pty Ltd* (2000) 78 SASR 376.

exercise and vend" in s 69 of the *Patents Act* 1952 (Cth)¹⁰¹. However, there is nothing in the new text or elsewhere in the Act to suggest that the monopoly in respect of an invention is more restricted than it was before.

123 Paragraph (b) of the definition of "exploit", critical to the reasoning of Gummow J in *Rescare*, defines two aspects of the exclusive rights to exploit a method or process patent, only one of which was explicated by his Honour.

124 The first aspect is the exclusive right to "use the method or process" *per se*. Nothing significant was said about this expression in *Rescare* because it was put to one side by the primary judge and it was not overtly considered in the appeal to the Full Court. There was never any doubt that carrying out a patented method or process was an exercise of the invention: "[w]here the claim is for a process, *any carrying out of the process* is, of course, an exercise of the invention, unless purely experimental" (emphasis added)¹⁰². Accordingly, carrying out a patented method or process could constitute infringement of a patented method.

125 The second aspect of the exclusive right to exploit a method or process patent is the exclusive right to do all the acts listed in par (a) of the definition of "exploit" in respect of "a product resulting from ... use" of "a method or process". In the absence of a product claim coupled with a method claim, there was often far less certainty about whether such acts would constitute an infringement of a patented method¹⁰³. The insertion of the second aspect into the statutory definition of "exploit" resolves such uncertainty¹⁰⁴. In this case, unlike *Rescare*, there is a product, the oil (alleged to infringe the product claim), which is a product for the purposes of the second aspect of the monopoly in respect of a method or process patent.

126 As a practical matter, it may often be easier to prove acts of infringement of a patented method by leading evidence of acts in respect of a product which

101 Explanatory Memorandum to the Patents Bill 1990 (Cth) at 5 [23].

102 Blanco White, *Patents for Inventions*, 4th ed (1974) at 96 [3-207].

103 See generally Blanco White, *Patents for Inventions*, 4th ed (1974) at 96-98 [3-208] and Walton and Laddie, *Patent Law of Europe and the United Kingdom*, (1983), vol 1 at II [2060].

104 As do ss 60(1)(c) and 100(1) of the *Patents Act* 1977 (UK). See also Thorley, Miller, Burkill, Birss and Campbell, *Terrell on the Law of Patents*, 16th ed (2006) at 313 [8-28].

results from use of a patented method, rather than seeking to prove use of the method *per se*¹⁰⁵.

127 Leaving aside practicalities of proof, if a product is in fact used for carrying out the patented process, an infringement occurs¹⁰⁶. In terms of s 6 of the Statute of Monopolies referred to in the Act's definition of "invention" in Sched 1, such an act is a "working" of the invention¹⁰⁷; in terms of the definition of "exploit" in Sched 1 to the Act, the conduct is a "use [of] the method or process". Although acts in respect of a product resulting from a patented method which infringe the monopoly will commonly be acts of direct infringement, there is no reason to doubt that s 117(1) applies to a product resulting from a use of a patented method. However, equally, a consideration of the complete definition of "exploit" in respect of a method or process indicates that there is no reason to deny the application of s 117 to a product (including, as here, an unpatented product) supplied by the supplier, preparatory to any carrying out of the patented method by a person to whom the product is supplied. The secondary materials referred to above show that the latter type of product was the main target of the legislation. The word "product" in s 117 is not confined to a product resulting from the use of a patented method or process¹⁰⁸.

128 Furthermore, a consideration of the whole of s 117, including s 117(2), indicates that the expression "the use of a product by a person" in s 117(1) refers to a use of a product by a person to whom the product is supplied; the use of the word "supply" suggests a third party¹⁰⁹. The precondition to engagement of s 117 in relation to a patented method is not a use of a product by the supplier of the product, but rather a use of the product by the person to whom the product is supplied¹¹⁰.

105 It can be noted that O 17 r 1 of the Federal Court Rules permits the Court to make orders for inspection of property including orders for "the observation of any process".

106 See the quotation from Blanco White at [103].

107 Under s 6 of the Statute of Monopolies it was "the true and first inventor" who was entitled to "the sole working or making of any manner of new manufactures" which "others ... shall not use".

108 See also reasons of Hayne J at [34].

109 Thorley, Miller, Burkill, Birss and Campbell, *Terrell on the Law of Patents*, 16th ed (2006) at 315 [8-32].

110 Cf *Rescare* (1992) 111 ALR 205 at 242-243 per Gummow J.

129 Section 117(2) follows and qualifies s 117(1). It contains a set of limitations which clarify and limit the availability of remedies for a patentee in respect of an "infringement by supply". Section 117(2)(a) expressly provides that facts resembling those of *Dawson*¹¹¹ constitute an infringement by supply. Section 117(2)(b) is a limitation which operates to protect suppliers of "staple commercial products" from liability even if a use of a staple commercial product by a person supplied "would infringe" in terms of s 117(1). Section 117(2)(c) provides that contributory infringement by inducement (considered a separate tort at common law) is an infringement by supply.

130 It is clear from the limitations on "use" in s 117(2) that the product supplied may be unpatented and may include raw materials. The limitations in s 117(2) can be understood as operating to ensure that infringement by supply does not inhibit lawful competition in unpatented products.

131 Consideration of the entire definition of "exploit" in respect of a method or process patent and of the whole of s 117 confirms that s 117 can be engaged in respect of a supply of a raw material for carrying out a patented method. That construction applies s 117 according to its terms and promotes the objectives of the legislation which can be gleaned from the secondary materials. Whether a particular use of an input into a method (or an input into a resulting product) "would infringe" in terms of s 117 will turn on the claims.

132 In terms of the claims in this case, and the assumption made by the primary judge that ACOC infringed the patent, the alleged use which ACOC makes of the bark and wood of the trees (the "supplied" product) is making, selling and offering for sale, the oil (the "infringing" product) extracted from the supplied product by steam distillation (the patented method). Nothing more needs to be said in the context of determining separate issues other than that the Northern Territory fails in respect of its submission on the first question that s 117 has no application to the timber supplied to ACOC.

Question 2: Did the statutory licences constitute a "supply"?

133 On the second question, it was submitted for the Northern Territory that the licences were, in form and substance, grants of permission to enter Crown lands, enforceable by forfeiture, and subject to royalty obligations and therefore not a "supply" as defined in the Act. Mr and Mrs Collins contended that the statutory licence in essence amounted to sale of the timber.

134 It was not disputed that the definition of "supply" in Sched 1 to the Act is not exhaustive and in its ordinary meaning it encompasses any means by which

¹¹¹ 448 US 176 (1980).

something is passed from one person to another. It is therefore not necessary to characterise the relevant royalty payments as equivalent to payments pursuant to a contract for the sale of the timber.

135 The licences to ACOC were undoubtedly in the form of statutory permissions to take timber, as contended by the Northern Territory. As the judgment of French J demonstrates, through the comprehensive consideration of numerous authorities, whether a contract to take timber is a sale of goods, or an interest in realty, depends on the context in which the characterisation is considered, then on a number of factors¹¹². Relevant statutory provisions affect the characterisation of an interest¹¹³. Some simple distinctions which affected rights as between a life tenant and a remainderman are not without interest. A tree severed from the land was personalty¹¹⁴, whereas a tree attached to the land was realty¹¹⁵. Trees containing a useable quantity of wood were "timber" trees, distinguishable from trees which do not bear timber¹¹⁶. However, as part of a statutory regime concerning Crown land, the licences need to be characterised "in the light of the relevant statutory provisions without attaching too much significance to similarities ... with the creation of particular interests by the common law owner of land"¹¹⁷.

136 The licences, when considered in the light of the provisions of the Crown Lands Act and the Crown Lands Regulations referred to above¹¹⁸, grant to licensees a personal rather than a proprietary interest in the timber of the plantation.

137 It has already been explained that the intention of the Northern Territory when setting up the Howard Springs Plantation was cultivation of the trees for the production of commercial (ie saleable) timber. In the context of argument

112 See also Butt, *Land Law*, 5th ed (2006) at 61-62 [336].

113 *Asciano Services Pty Ltd v Chief Commissioner of State Revenue* [2008] HCA 46.

114 *In re Ainslie; Swinburn v Ainslie* (1885) 30 Ch D 485; *In re Llewellyn; Llewellyn v Williams* (1887) 37 Ch D 317 at 324 per Stirling J.

115 This was an application of the maxim *quicquid plantatur solo, solo cedit*.

116 *Dashwood v Magniac* [1891] 3 Ch 306 at 352 per Lindley LJ, 358-359 per Bowen LJ.

117 *R v Toohey; Ex parte Meneling Station Pty Ltd* (1982) 158 CLR 327 at 344 per Mason J; [1982] HCA 69.

118 At [64], [66]-[68].

concerning the expression "staple commercial product" the Northern Territory relies, correctly, on numerous commercial uses of the timber in question. The licences are a means of passing, to ACOC, for commercial exploitation by ACOC, quantities of timber from trees cultivated by the Northern Territory to produce timber. The fact that an *ad valorem* royalty is charged in respect of the timber taken only serves to emphasise the fact that the interest granted under the licences involved commercial terms. The licences constitute a "supply" of raw materials for commercial use; this is a "supply" for the purposes of s 117. Accordingly, the Northern Territory fails in respect of its submissions on the second question.

Question 3: Is the timber taken under the licences a "staple commercial product"?

138 Because, contrary to the Northern Territory's submissions on questions 1 and 2, s 117(1) is capable of applying to the supply of the product here, it is necessary to answer question 3.

139 On that question, the Northern Territory contended that the expression "staple commercial product" in s 117(2)(b) should be construed as referring to any product supplied commercially which has substantial (ie not *de minimis*) non-infringing uses, this being an exception to contributory infringement recognised in both the United States of America and the United Kingdom.

140 Mr and Mrs Collins sought to uphold the decision of the majority in the Full Court that a "staple commercial product" is "an item of commerce in the sense that it is ordinarily available for purchase from an entity that trades in that product"¹¹⁹. In particular, it was submitted that the Australian legislature has not incorporated the United States provisions with their reference to "substantial noninfringing use". It was contended that the conception of "staple commercial product" favoured in the United Kingdom and Europe, namely that such products were "generally available"¹²⁰, should be preferred as the correct construction of the expression in s 117(2)(b).

141 Timber is a naturally occurring raw material whether deliberately cultivated or not. Timber of *Callitris intratropica* has a number of commercial

¹¹⁹ (2007) 161 FCR 549 at 596 [158] per Branson and Sundberg JJ.

¹²⁰ J B van Benthem, "The Rights conferred by a Community Patent under the Community Patent Convention", in Pennington (ed), *European Patents at the Crossroads*, (1976) 119 at 132; Savignon, "Report on the Results of the Luxembourg Convention", in Pennington (ed), *European Patents at the Crossroads*, (1976) 9 at 14.

uses. The primary judge was correct in his conclusion that the abandonment of original plans for the commercial exploitation of the plantation did not alter the character of the timber. The phrase "staple commercial product" derives from the statutory language in the United Kingdom. The cognate provisions in the United States of America refer to "a staple article or commodity of commerce suitable for substantial noninfringing use".

142 The precise scope of the expression "staple commercial product" is not clear. One ordinary adjectival use of "staple", applied to raw materials, conveys the meaning that the material is capable of being used as a constituent element in a number of other products¹²¹. That focuses on the inherent qualities of the product. Another equally well-known ordinary adjectival use of "staple" conveys the meaning that a product has a foremost place among products, for example, in a particular location¹²². That focuses on the distribution of a product rather than upon its inherent capacity to be a constituent in a number of other products and overlaps with the idea that the product be a "commercial" product.

143 It has been suggested by at least one writer in respect of European rights that a "staple commercial product" has two main qualities: first, it must be "[a] basic product commonly used for various purposes", and secondly, it must be "[g]enerally available on the market"¹²³.

144 Raw materials such as wool or timber undoubtedly have the first quality. As to the second quality, it is necessary to recognise that s 117(2)(b) operates to limit liability for contributory infringement. Policy arguments in favour of imposing liability for contributory infringement are much weaker with a product

121 *Oxford English Dictionary*, 2nd ed, vol XVI at 522. See also Thorley, Miller, Burkill, Birss and Campbell, *Terrell on the Law of Patents*, 16th ed (2006) at 317 [8-37].

122 *Oxford English Dictionary*, 2nd ed, vol XVI at 522 and *Macquarie Dictionary*, Federation ed, vol II at 1834.

123 Benyamini, *Patent Infringement in the European Community*, (1993) at 234-235 [9.8.3]. As already noted, Art 26 of the Community Patent Convention and s 60(3) of the *Patents Act* 1977 (UK) refer to a "staple commercial product"; Art L613-4 of the French *Intellectual Property Code* refers to "produits qui se trouvent couramment dans le commerce", as to which see *Regicentre v Isoka, International Celomer et al* (1989) 20 IIC 217; Art 10(2) of the German *Patent Law* (as translated by the World Intellectual Property Organisation ("WIPO")) refers to "staple commercial products"; Art 73(2) of the Netherlands *Patents Act* (as translated by WIPO) refers to "products which are generally available in commerce".

that has significant non-infringing uses¹²⁴. The legislative intention evinced in the statutory language, and apparent also from the relevant secondary materials, is to except from liability, the supply of products with significant non-infringing uses, or as it has been put in relation to the American provisions, products with "lawful as well as unlawful uses"¹²⁵. A preference for such a construction has also been essayed in respect of s 60(3) of the *Patents Act 1977* (UK) by a writer who states¹²⁶

"the intention is to stop material particularly adapted to the use of an invention being made available to a putative infringer, but that material which has and, importantly, had, a general purpose of more than *de minimis* utility, falls within the [UK] exception".

145 The phrase "staple commercial product" means a product supplied commercially for various uses. This does not mandate an enquiry into whether there is "an established wholesale or retail market"¹²⁷ or into whether the product is "generally available" even though evidence of such matters may well be sufficient to show that a product is a "staple commercial product". The relevant enquiry is into whether the supply of the product is commercial and whether the product has various uses. Leaving aside the supply to ACOC, the timber here was supplied on commercial terms to various licensees for a variety of non-infringing uses. Accordingly, the Northern Territory is protected by the limitation in s 117(2)(b).

Orders

146 The appeal should be allowed with costs.

147 The order of the Full Court of the Federal Court made on 20 September 2007 should be set aside and in its place it should be ordered that the appeal to that Court be dismissed with costs.

124 See Moy, *Moy's Walker on Patents*, 4th ed, vol 5, §15:23 at 15-143.

125 See *Metro-Goldwyn-Mayer Studios Inc v Grokster Ltd* 545 US 913 at 932 (2005) per Souter J.

126 Roughton, "Infringement", in Fysh et al (eds), *The Modern Law of Patents*, (2005) 17 at 26 [2.11]. See also Thorley, Miller, Burkill, Birss and Campbell, *Terrell on the Law of Patents*, 16th ed (2006) at 317 [8-37].

127 Cf *Collins v Northern Territory* (2007) 161 FCR 549 at 595 [156] per Branson and Sundberg JJ.