The Concept Of Implied Licence To Use - Is There Room For Equitable Estoppel By Conduct?

Smith Kline & French Laboratories Ltd v Salim (Malaysia) Sdn. Bhd.

Parallel imports occur when non-authentic - not counterfeited - products are imported cheaply without the consent of the authorised dealer or licensee in a particular jurisdiction.[1] Generally, intellectual property owners possess a number of exclusive rights over their intellectual product. One of them is the distribution right.[2] This means that an intellectual property owner is authorised to control the distribution of their goods either by sale, lease or rental. In normal circumstances, the goods will be distributed locally within a particular jurisdiction. In such an instance, the task of controlling the sale, supply and price of goods do not pose many problems to the intellectual property vendor. However, it is most likely that these goods may be disposed off outside the jurisdiction in which they were earlier released. A legal issue then arises as to whether the intellectual property owner can still exercise his rights over the goods despite departing with his physical ownership over them earlier.

The normal property principle predicates that the vendor has exhausted his rights once he no longer has physical control over his goods.[3] In this case, the law will not step in to deny the new owner from exercising his possession over the goods. Needless to say, however, those normal property principles do not apply in an intellectual property

[1] Herman Cohen Jehoram, *Prohibition of Parallel Imports through Intellectual Property Rights*, IIC, Volume 30, No. 5/1999.

[2] For example, see section 13(1) of the Copyright Act 1983.

[3] Generally, there are various types of exhaustion theory: national, community and international. The nature of these theories and their importance in intellectual property law would be outside the purview of this article.

world. The physical transfer of an intellectual property product does not necessarily convey the change of ownership of the intellectual property rights residing therein.[4] Case law on this point enunciates that the determinant factor is the conduct of the intellectual property vendor, the key point being whether they have disposed of the goods and have given away their right to control the subsequent chain of distribution. To this end, the courts have come up with various ways to infer the intention of the parties from the conduct of their transactions. If the vendor wants to restrict the movements of the goods, they can easily notify the buyers that the goods are only meant for local consumption. But what if the vendor chose to sell his goods unconditionally? Or there is nothing on the goods that suggest the existence of any territorial restrictions? What if the vendor does not complain of the sale of the goods in other jurisdictions? Can this be interpreted as implying the non-existence of conditions? More specifically, would this amount to a waiver of his distribution right?

This article will appraise the court's attempt in deriving a set of determinants to a finding of an implied licence and consent. Throughout this article, we will address the issue as to whether the vendor's silence amounts to consent in a way which the law can assume the existence of estoppel by conduct. For this purpose, various case law in other jurisdictions pertinent to this issue will be examined with the hope that a set of guiding principles can be arrived at for future resolution. As the article is solely concerned with the issue of consent, the other approaches to justifying parallel imports will not be of concern.[5]

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[4]There is much case law that substantiates this proposition. Suffice to note here some of them: *Cooper v Stephens* (1895) 1 Ch. 567 and *Marshall (W) & Co Ltd. V Bull A. H. Ltd.* (1901) 85 L.T. 77.

[5]It is known that parallel imports have attracted various debates, conflicting views and divergent judicial interpretation. Many theories, legal and economics, have been advanced, for and against, parallel imports. Needless to say, these theories and the ensuing debate is not of concern here. For a brief foray into the recent legal decisions on parallel imports, see, Herman Cohen Jehoram, footnote 1 above and Ansgar Ohly, *Trade Marks and Parallel Importation-Recent Developments in European Law*, IIC, Volume 30, at page 512.

Cases on 'Implied Licence' in Malaysia

At the outset, the Malaysian courts have judicially resolved several decisions on parallel imports. Two of them pertain to trade marks[6], one on copyright[7] and one on patents.[8] As only two of the cases were decided on the basis of 'implied licence', only these two cases would be relevant to our discussion. In *Smith Kline Beecham*,[9] the High Court of Kuala Lumpur concluded that the vendor's unconditional disposal of his goods amounts to an estoppel by conduct. As this case is pertinent to our analysis of the symbiosis of estoppel and implied licence, a detailed deliberation of the facts is necessary.

The plaintiffs in this case own two letters of patent for the drug 'cimetidine' in the United Kingdom. These patents had been registered in West Malaysia pursuant to the Malaysian Registrations of United Kingdom Patents Act 1951. Certain associated companies of the plaintiffs manufactured the drug in different parts of the world, including in a factory in England, another in Belgium and yet another in Australia. The drug manufactured in each of these factories was packed in packets and there was nothing on the packets to indicate that there were restrictions as to the geographical area in which the drug may be sold. The plaintiffs purported to appoint FE Zuellig (M) Sdn. Bhd. to be the sole importer and distributor of the drug in West Malaysia. The defendants were retailers of, inter alia, the drug. Their suppliers had been FE Zuellig (M) Sdn. Bhd., as well as a British supplier, Steinweld Ltd. The drug produced in Britain as well as in Belgium was apparently available freely in the open market in the United Kingdom (the 'UK'). Steinweld Ltd. purchased quantities of British manufactured and/or Belgian-manufactured '*cimetidine*', which they sold to the defendants

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[6]*Hai-O Enterprise Bhd. v Nguang Chan @ Chan Liquor Trader (a firm intervening)* [1992] 4 CLJ 1985 and *Winthrop Products Inc. & Anor v Sun Ocean (M) Sdn. Bhd. & Anor* [1988] 2 MLJ 317.

[7]*Class One Video Distributors Sdn Bhd & Anor v Chanan Singh a/l Sher Singh & Anor* [1997] 5 MLJ 209.

[8]*Smith Kline & French Laboratories Ltd. v Salim (Malaysia) Sdn. Bhd.* [1989] 2 MLJ 380.

[9]Footnote 8 above.

as importers of the drug and who in turn had been retailing the drug in West Malaysia. The plaintiffs commenced an action against the defendants, seeking a declaration that the defendants had infringed the plaintiffs' rights as acquired by the registration of their patents in West Malaysia.

In this case, the High Court of Kuala Lumpur judicially noted the following:

(i) where the patent proprietor or their associated company sold their patented product in say, the UK, without giving effective notice of any restriction in respect of the re-sale and the product was purchased by another Malaysian merchant by way of import, then the exclusive licensee of the patented product in Malaysia will not have any rights against such an innocent importer of the product;
(ii) the law will imply the consent of the plaintiffs and their associated companies to an undisturbed and unrestricted use of the chattels that had been sold. Such an implied consent can be invoked wherever those chattels end up;
(iii) no doubt any importation of the drug by the importer after effective notice of restrictions against doing so would be an infringement of the patent.

The judge went further to establish the elements of estoppel and implied consent in this case. In his own words:

> "The United Kingdom is one of the great market places of the world. Hundreds of merchants all over the world and in particular from the Commonwealth countries move into the market place that is the United Kingdom to buy various products sold in open market there, a fact no doubt known and taken advantage of by the plaintiffs and their British wholesalers."

Taking that into account, the Honourable Judge noted that some form of assurance of freedom of transfer of goods exists in this case. In his words:

> "In this premises it is difficult not to conclude that the only reason for the plaintiffs and their associated companies not indicating, clearly

> or at all, the restrictions in respect of sale on the labeling or packaging is that *they wanted to negative any inhibitions on the part of the purchasers in the United Kingdom from purchasing the drug. There seems to be a wanting to have the cake and eat it. This, according to the judge, is something that the law will not allow and a sort of* ***estoppel*** *will be invoked against such a plaintiff.*"[10]

In coming to his decision, the Honourable Judge was persuaded by the judicial pronouncement of the Privy Council in dealing with the effect of patented chattels in *National Phonograph Co of Australia Ltd. v Menck*:[11]

> "All that is affirmed is that the general doctrine of absolute freedom of disposal of chattels of an ordinary kind is, in the case of patented chattels, *subject to the restriction that the person purchasing them, and in the knowledge of the conditions attached by the patentee, which knowledge is clearly brought home to himself, at the time of sale, shall be bound by the knowledge and accept the situation of ownership subject to the limitations.* These limitations are merely the respect paid and the effect given to those conditions of transfer of the patented article which the law, laid down by statute, gave the original patentee a power to impose. Whether the law on this head should be changed and the power of sale *sub modo* should be withdrawn or limited is not a question for the court. It may be added that where a patented article has been acquired by sale, much, if not all, may be implied as to the consent of the licensee to an undisturbed and unrestricted use thereof. *In short, such a sale negatives in the ordinary case the imposition of conditions and bringing home to the knowledge of the owner of the patented goods that restriction are laid upon him.*" (Emphasis added)

Implied Licence

The concept of implied licence is further scrutinised by the High Court in another parallel importation case, this time dealing with a trade mark in *Winthrop Products Inc. & Anor v. Sun Ocean (M) Sdn. Bhd.*

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[10]Per V.C. George J, at page 384. Emphasis added.

[11][1911] AC 336, at page 349.

& Anor.[12] This case concerned the well-known branded analgesic, Panadol. The owner of the trade mark was the Sterling group of companies. This group had various companies all over the world owning and using the trade mark. In Malaysia, the first plaintiff who also had the registered-user rights of the mark in the UK owned it. The second plaintiff was registered in Malaysia as the sole registered user of the mark. In the UK, the analgesic was produced as tablets and was offered for sale in blue packs under the trade mark. There was nothing on the pack to suggest any territorial restrictions in respect of the sale of the product.

The plaintiffs' complaint against the defendant was that the second defendant imported into Malaysia the blue pack Panadol that they had obtained from the British domestic market and that they sold such Panadol in the Malaysian market through, inter alia, the first defendant. It was contended for the plaintiffs that such importation and sale of the blue pack Panadol in Malaysia infringes the first plaintiff's proprietorship and second plaintiff's user rights in the Panadol trade mark.

It was decided by V.C. George J. among others that:

> "The legal ownership of the trade mark Panadol enables the proprietor to protect in Malaysia the reputation and goodwill of the owner and of the group of which the owner is a member by ensuring that no goods are sold with the mark unless they are produced and labeled by a Sterling company. The legal ownership of the mark does not go further and enable the owner of registered owner to ensure that products manufactured elsewhere (e.g. in the UK or in the USA) are not sold within the territory of Malaysia. Neither common law nor the statute law of Malaysia allows this."

The court went further to hold that neither the plaintiffs may complain of or object to the putting into the market in the UK or elsewhere of products by their related companies of the similar product bearing the same trade mark. They can be said to have *"impliedly consented to the idea that the person who holds the goods acquires the absolute*

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[12][1988] 2 MLJ 317.

ownership of them including the right to sell the goods in any part of the world in the same condition in which they were disposed of' (emphasis added).

Accordingly, both the plaintiffs in the present case had impliedly consented to the use of the trade mark by the manufacturers of the blue pack Panadol in the UK, which had found its way into the ownership of the defendants.

Implied Licence - can this Readily be Inferred When Goods are Sold Without Express Restriction? - The View from the Australian and UK Courts

Although there is some divergence in authorities, the mainstream of thought is that the licence or consent arises as an implied term in a contract, usually the contract of sale, between the proprietor of the intellectual property right and the person with whom he was dealing. The implication is one that would arise from the nature of the contractual basis.[13] In *Interstate Parcel Express Co Pty. Ltd. (Ipec) v Time Life International (Nederlands) BV*,[14] the High Court issued the most profound statement on implied licence. The proposition relied on is that in copyright law, a licence cannot be implied from the mere fact that the copyright owner has sold the goods without any express restriction on their subsequent disposal.

This case was an appeal from a judgement of the New South Wales Supreme Court making certain declarations and orders in respect of copyright infringement, in favour of Time-Life against Ipec, which was then operating the Angus and Robertson Bookshops. Time-Life, A Dutch company, was at the time the exclusive licensee of Time Inc, a New York company, in respect of certain goods of which Time Inc was the copyright owner. The proceedings were originally instituted by both these companies but Time Inc did not continue with the action,

[13]See for example, *Beck*'s case at page 304, *Blackwell's* case, at page 148 and *Interstate Parcell Express Co Pty. Ltd. v Time-Life International (Netherlands) BV* (1977) 138 CLR 534, at page 548.

[14](1977) 138 CLR 534.

fearing that to proceed with the action might involve advancing arguments that could be construed as an infringement of the anti-trust legislation of the United States of America.

The issue was whether Ipec imported the books into and sold them in Australia without the licence of the owner of the copyright. The High Court was of the view that the word 'licence', as it appears in section 37 of the Australian Copyright Act 1968 means no more than consent; and that a licence in this context may be given orally or is implied by conduct.

Gibbs J further noted that a licence "means the consent of the owner to the importation of the articles into Australia for the purpose of selling them, or to their sale after importation and such a licence cannot be inferred from the mere fact that the owner of the copyright has sold the goods without any express restriction on their subsequent disposal".[15]

The UK courts in the case of *Polydor Ltd. v Harlequin Record Shop*[16] take a similar approach. This case involved an argument about whether there was an implied licence to import a recording into the UK. Polydor Ltd. was the exclusive licensee in the UK from the copyright owner of a certain recording. The licensee in Portugal was a Polydor company. The records were bought legally in Portugal by Harlequin but imported into the UK without the consent of Polydor.

Harlequin argued that the sale in Portugal implied a licence by every member of the Polydor group for the importing of records into the UK. This argument was rejected and the English Court of Appeal, following the High Court in the *Time Life*[17] held: "the sale of records by the Portugese licensees conferred ownership and possession on the defendants (Harlequin), but did not constitute a licence from anyone to import those records into the United Kingdom.[18]

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[15]At page 544.

[16][1980] FSR 362.

[17]Footnote 13 above.

[18]At page 366.

In *Ozi-Soft Pty Ltd and Others v Wong and Others,*[19] the Federal Court of Australia upheld the decision of *Time Life.*[20] The applicant in this case was the exclusive licensee in Australia of the copyright in a number of computer programs, the proprietors of which were the remaining applicants. The respondents purchased diskettes embodying the computer programs in commercial quantities in the UK without any restrictions being imposed on subsequent dealings, and imported them into Australia.

The respondents alleged that there was by virtue of these circumstances, an implied licence to import the computer programs into Australia. The Federal Court of Australia held that the purchase of the diskettes by the respondents in commercial quantities from the copyright owners themselves was not sufficient to amount to an implied licence to import them into Australia.

Two years prior to that, in *R A & A Bailey & Co Ltd. v Boccaccio Pty. and others and R A & A Bailey & Co Ltd. v Pacific Wine Co Pty. Ltd.,*[21] the Supreme Court of New South Wales upheld parallel imports as a copyright, but not trade mark, infringement. The plaintiff in this case was the manufacturer in the Republic of Ireland of "bailey's Original Irish Cream" and had certain arrangements with third parties in Australia for the importation and distribution of this product in Australia. The product distributed in Australia was in a bottle (the Australian bottle) to which was affixed an elaborate pictorial label part of which was registered as a trade mark under the Trade Marks Act 1955.

The defendants in each proceeding imported the same product (the Dutch bottle) bearing an almost identical label manufactured by the plaintiff but distributed by it in the Netherlands. It was held that the importation and sale of the Dutch bottle by the defendants did not infringe the Australian trade mark because it is the nature of a trade mark that it indicates a connection in the course of trade between the goods and the proprietor or registered user of the mark. Even though

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[19]10 I.P.R. 520.

[20]Footnote 13 above.

[21]6 I.P.R 279.

the plaintiff had selected the Australian bottles for the Australian market, and the nearly identical Dutch bottles for the Dutch market, the mark in this case was principally a 'badge of origin' rather than a "badge of control" and there was no infringement by distribution in Australia of genuine marked goods correctly designated as originating with the plaintiff. However, in finding infringement of the applicant's copyright, the court found that there could not be an implied licence given to the defendant by virtue of putting the Dutch bottle in circulation in Holland.

In 1992, the Federal Court of Australia issued another major pronouncement on parallel imports. The case is *Lorenzo & Sons Pty. Ltd. v Roland Corporation and Another*[22] whereby the appellant (Lorenzo) was the importer into Australia of a number of items of musical equipment, known as electronic synthesisers, manufactured by the first respondents of the letter "R" or the letter "B". Roland products were marked with stylised representations of the letter "R" or the letter "B". The equipment imported by Lorenzo was purchased by it in Hong Kong from a dealer in Roland products known as "Tom Lee Music". The products manufactured for sale in Australia were suitable for use in Australia, and hence they were different from those manufactured for sale in Hong Kong. The Australian products were specially adapted in numerous respects including that necessary to comply with Australia's different voltage and electrical safety requirements.

The Federal Court of Australia found that no formality is required for a licence to import, nor need the licence be contractual, but in the absence of an express licence to import, it was necessary to determine whether there were circumstances present from which the existence of consent of the copyright owner might be inferred. In this case, no such circumstances existed. Nothing could be inferred from the fact that Tom Lee Music sold a substantial number of Roland products in Hong Kong as the evidence indicated that Tom Lee Music had a substantial retail business in the colony of Hong Kong itself and not solely for export out of Hong Kong. In addition, Roland's role as exclusive Australian importer and the differentiation of products manufactured

[22] 23 I.P.R 376.

for sale in Hong Kong and those manufactured for sale in Australia immeasurably strengthened the case that no such licence had been given.

Positive Licence

The cases discussed provide a compelling argument that a positive licence from the copyright owner, as opposed to implied licence by conduct, is required under section 37 of the Australian Copyright Act 1968, to permit parallel imports. In the words of Jacob J:

> "A positive licence to import for purposes of sale is not necessarily an express licence. A positive licence may in certain circumstances be implied as for example where a copyright owner overseas sells copyright articles in commercial quantities to a purchaser in Australia. But that is very different from implying a licence to import into Australia for purposes of sale from the mere fact that the copyright owner made sales in his own country in commercial quantities to a purchaser in that country without expressly imposing a restriction on importation into Australia. It cannot be maintained that in such circumstances the copyright owner positively licenses the importation into Australia of the articles which he had sold on his own domestic market"[23].

It was further observed in *Avel Pty Ltd and Others v Wells*[24] by McHugh J, that whilst indifference may reach a stage where authorisation or permission may be inferred, a failure to object or even an intention not to take any action to object to the importation of articles do not necessarily constitute a licence for the purposes of section 37 of the Australian Copyright Act 1968.

A similar observation was made in *Broderbund Software Inc and Another v Computermate Products (Australia) Pty. Ltd. and Others.*[25]

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[23] *Time-Life International (Nederlands) BV* (1977) 138 CLR 534; 15 ALR 353, at pages CLR 556-557.

[24] 105 ALR 635.

[25] 22 I.P.R 215.

Here the applicants were the owner of the Australian copyright (Broderbund) and its exclusive Australian distributor (Dataflow) in respect of a computer program, "Where in the world is Carmen Sandiego" (the program), and sought in these proceedings, inter alia, to restrain the importation into Australia and sale by the first respondent (Computermate) of copies of the program manufactured by Broderbund and sold in the United States by its local distributors. The respondents asserted that they had the implied permission of Broderbund to import the copies of the program purchased into Australia by Computermate of copies of the program in the United States, as well as certain discussions between Mr. Firth and representatives of the applicants in which the former made it clear that he was importing the program into Australia.

The Federal Court reiterated its previous stand that the supply of goods without express restrictions on further disposal of them does not constitute consent to the importation of the goods in Australia. To the contrary, the court observed that the conduct of the Broderbund in this case has only been consistent with the stance that it wishes Dataflow to be its sole importer of the program. Broderbund implemented its policy in this regard by its entry into the exclusive distributorship and exclusive licensing arrangements with Dataflow in 1998 and 1989. The entry into such arrangements was inconsistent with an intention to consent to another trader importing the program.

These cases highlight the practical and theoretical problems which would arise if the conclusion of consent were too readily drawn merely because of a failure to object or express the desire to control the subsequent disposal of goods. To derive an implied consent to the use of a mark simply from the fact of overseas sales without the territorial restriction upon resale would seem contrary to the reasoning of the cases discussed earlier.

The Patent Perspective

As deliberated above, the court in *Smith Kline*[26] applied the reasoning of the Privy Council in *National Phonograph Co of Australia v Menck*,[27]

[26]Footnote 8 above.

[27](1911) 28 RPC 229.

which in turn endorsed the decision in *Betts v Wilmott.*[28] The main proposition expounded by the Privy Council is that a patentee can impose conditions at the time of the sale and when this is not done, there is a presumption of implied licence to unqualified use.

On the other hand, as the Patents County Court in *Welcome Foundation Limited v Discipharm Limited and Others*[29] observed, 12 years after *Betts v Wilmott,*[30] the Court of Appeal has changed their stand in *SA des Manufactures de Glaces v Tilghman,* a case in which a licensee under a foreign patent had only a right to manufacture in his own territory[31]:

> "The licence to use a patented invention under a foreign patent stands in a very different position from the sale of an article manufactured under either a foreign or an English patent. When an article is sold without any restrictions on the buyer, whether it is manufactured under one or the other patent, that, in my opinion, as against the vendor gives the purchaser an absolute right to deal with that in any way he thinks fit and, of course, that includes selling in any country where there is a patent in the possession of and owned by the vendor."

It would seem that the courts begin to distinguish a position whereby the vendor of the goods is only licensed to manufacture in a particular territory. In that instance, could the licensee pass an unqualified and unrestrictive right to use to the purchaser? Contractually, this would depend on whether the vendor is the patent owner or only a licensee to manufacture. This proposition was later extended by the High Court of Kenya in *Beecham Group v International Products*[32] following the judicial pronouncements of the Patents County Courts in *Welcome Foundation.*[33] Rudd J. found that a sale by the patentee or his agent frees the article sold from the patentee's patents anywhere in the world

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[28](1871) LR 6 Ch. App 239.

[29][1993] FSR 433.

[30]Footnote 28 above.

[31](1883) 25 Ch. D 1, Cotton LJ statement, at page 9.

[32](1968) RPC 129.

[33]Footnote 29 above.

but a sale by the licensee can only release the article from the patentee's rights to the extent that the licensee has authority to do so (expressly or by necessary implication) under the licence agreement. In this case, it is clear that Gayoso Wellcome SA have only a bare licence to manufacture under the Spanish patent and could not transfer an unqualified right of use to the purchaser.

As a conclusion, it is submitted that the finding of implied licence to use on the simple analysis of the failure to impose conditions on subsequent use would not stand on the face of the legal authorities discussed earlier. A holder of a bare licence to manufacture would not be able to transfer an unqualified licence to use, a right that he himself does not posses. The article now turns to the application of equitable estoppel in the finding of implied licence to non-restrictive use.

Estoppel and Implied Licence

In normal circumstances, the absence of a tacit promise, or express representation warrants against the finding of estoppel. Generally, mere silence or inaction cannot amount to a representation unless there is duty to disclose or act.[34] However, the Federal Court in *Boustead Trading Sdn. Bhd. v Arab-Malaysian Merchant Bank Bhd.*,[35] observed that encouragement can also come in the form of silence. The panel of three Federal Court judges took precedent from the judgement of Thesiger LJ in *De Bussche v Alt*:[36]

> "If a person having a right, and seeing another person about to commit, or in the course of committing to induce the person committing the act, and who might otherwise have abstained from it, to believe that he assents to its being committed, he cannot afterwards be heard to complain to the act."

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[34]See *Greenwood* (1933) AC 51, at page 57. In this case, Lord Tomlin at page 57 reiterated that unless conduct can be interpreted as amounting to an implied representation, it cannot constitute an estoppel: for the essence of estoppel is a representation (express or implied) intended to induce the person to whom it is made to adopt a course of conduct which results in detriment or loss.

[35][1995] 3 MLJ 331.

[36](1878) 8 Ch. D 286, at page 314. See also V.C. George's decision in *MAA Holdings Sdn. Bhd. & Anor v Ng Siew Wah & Ors* (1986) 1 MLJ 170.

The fundamental principle is whether the parties claiming estoppel is induced by the conduct of his opponent to act in a particular way. On this point, the Federal Court in *Boustead*[37] was of the view that positive evidence need not be shown that the applicant has been induced into believing something:

> "All that a representee (which term includes one who has received encouragement in the sense we have discussed earlier) need do is to place sufficient material before the court from which an inference may be fairly drawn that he was influenced by his opponent's acting."

Taking that into consideration, it would have been clear that in *Smith Kline*,[38] the defendants were influenced by the vendor's conduct and they were entitled to assume that the goods purchased were not subject to any territorial restrictions. Although there was no positive encouragement, the fact that the vendor stood by the transaction quietly, fully aware that as patent owners they were entitled to impose conditions, this would imply that they are not enforcing their rights. In such an instance, the finding of estoppel by V.C. George is based on sound legal grounding.

Moreover, the proposition that mere silence cannot amount to estoppel is only valid when there was no duty to speak. The Privy Council in *Tai Hing*[39] has considered a situation where there was no duty to speak and the plaintiff had remained silent. In contrast, the traditional view adopted by jurists of great learning is that the patent owner owes a duty to inform the buyer of any conditions imposed on the goods. The failure to exercise this right would be prejudicial to the patent owner's interest and they would not have any ground in equity to complain.

To surmise, the court's resolution can be supported from the finding of an implied licence, inferred from the outward conduct of the parties and the way they carried out the transaction in the UK. The intellectual property owners conducted themselves in a way that led third parties

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[37]Footnote 35 above.

[38]Footnote 8 above.

[39]*Tai Hing Cotton Mill Ltd. v Liu Chong Hing Bank Ltd. & Ors* (1986) AC 80; 1985 2 All ER 947.

to believe that there is an absolute freedom of subsequent disposal of goods. Equity then operates to impinge him from acting in a contradictory way. In other words, according to the High Court in *Smith Kline*,[40] estoppel operates to release the parties from their strict legal rights.

In almost all other cases on this point, the finding of implied licence is the determinative factor. Rarely would the court invoke other principles, let alone equitable estoppel to support its verdict. What more if the claim of estoppel was never raised as a formal defence by the litigants in the suit. Although the absence of a claim is not an absolute bar to its invocation in courts, courts have often identified estoppel as a matter, which requires to be pleaded under the rules of the court.[41] The proposition that an express plea of estoppel is essential has received judicial recognition in many cases including *Lal Somnath Singh & Ors v Ambika Prasad*,[42] *Oversea-Chinese Banking Corp Ltd. v Phillip Wee Kee Puan*[43] and *Habib Bank Ltd. v Habib Bank AG Zurich.*[44] Gopal Sri Ram J in *Boustead Trading*[45] emphasised that it is the discretion of the judge to decide where the justice of the case lies. He further noted that it is sufficient that the elements of estoppel are present to warrant its invocation[46] provided that the other party is not prejudiced by the surprise.

It was also judicially noted in *Smith Kline*[47] that as the defendants had ceased their activities upon receiving notice of territorial restrictions,

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[40]Footnote 8 above.

[41]See *Associated Pan Malaysia Cement Sdn. Bhd. v Syarikat Teknikal & Kejuruteraan Sdn. Bhd.* (1990) 3 MLJ 286, at page 296.

[42](1950) All 121, at page 131.

[43](1984) 2 MLJ 1.

[44](1981) 1 WLR 1265.

[45]Footnote 35 above.

[46] It was found in this case that the court might permit a litigant to argue an unpleaded estoppel if it is in the interest of justice to do so. It is a matter within the discretion of the judge who must have due regard to all the circumstances of the case, including any prejudice that may be caused by the affected party being taken by surprise.

[47]Footnote 8 above.

they were not liable for their past deeds. This is in line with the accepted principle that estoppel only operates to suspend legal rights and not to extinguish them altogether.[48] Resumption of strict legal rights is permissible once reasonable notice is given to the other party.[49]

Conclusion

In *Smith Kline*,[50] the invocation of the rule of estoppel is not necessary. What the court could have done is to find the existence of consent, either express or implied from the outward conduct of the intellectual property owner. This would suffice to operate against the claim of the property owner. Therefore, in going further and adding estoppel as a patent owner. Therefore, in going further and adding estoppel as a further ground for the decision, the court was really supplying 'a third wheel to the chariot'.[51]

Cases in Australia and UK demonstrate that the proposition that an implied licence of unrestricted use can be inferred simply from the silence of the patent or the trade mark owner could not be supported. However, history has shown that the courts, in resolving the issue, frequently made a passing judgement as to the desirability of parallel imports.[52] Leaving aside the intricate legal questions of the permissibility

[48]A promissory estoppel is not permanent in its effect. See the case of *Ayaji v RT Briscoe (Nigeria) Ltd.* (1964) 1 WLR 1326; (1964) 3 All ER 556, which shows that a promisor may resile from his position upon giving notice - thus affording the latter a reasonable opportunity of resuming his previous position.

[49]*Sim Siok Eng v Govt. of Malaysia* [1978] MLJ 15.

[50]Footnote 8 above.

[51]In the language of Edgar Joseph J in *Cheng Hang Guan & Ors v Perumahan Farlim (Penang) Sdn Bhd & Ors* [1993] MLJ Lexis 545, at page 48.

[52]In *Ozi Soft*, footnote 19 above, Einfeld J of the Australian Federal Court observed the benefits of opening the market to unrestricted competition:

> "It may be that some other mechanism is needed to be developed to resolve these issues, because the interests of the Australian people in having free access to literary, musical and artistic works, even computer video entertainment, are adversely affected if oppressive restrictions on importation and sale may be imposed by copyright owners who are not themselves importing or intending to import the works in question".

of attempts to control such activities, the true answer lies rather in trade policy. The proper question to be addressed is whether the intellectual property owners should be allowed to maintain divisions of market and price differential practices. Undoubtedly, policy concerns are the purview of legislators and should not be resolved by the courts of law. In Australia, the restrictive interpretation of 'implied licence' has allowed the development of monopolistic control over the majority of books, sound recordings and computer software. The effect of anti-competitive structure of those markets is evident in the higher prices charged in Australia for products identical to those sold elsewhere in the world. So on the basis of economic studies, the Australian government has introduced legislation to remove the restrictions on parallel imports, in 1991 in respect of importation of books and 30 July 1998 in respect of CDs.[53]

Viewing it from a more global perspective, the permissibility of parallel imports depends on the trade policy of a particular country. As aptly observed by Herman Cohen Jehoram:

> "It now depends on the intellectual property laws of the country of import, whether such a "grey market" is an infringement of the rights of the producer. Apart from that, one has to reckon with the international trade policy of the country or region of import, which favours or rejects the protectionism that would be the result of intellectual property prohibitions of parallel imports".[54]

Smith Kline[55] has left a considerable doubt on the notion of implied licence and estoppel by conduct. However, restricting implied licence in favour of the approach taken in *Avel*[56] would not resolve the more fundamental question of how best to deal with parallel imports. Reaching a decision on the basis of purely legal arguments would not camouflage

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[53]For a more detailed deliberation, see *Copyright and Monopoly Profits : Books, Recordings and Software*, Current Issues Brief, No. 15, 1996/97, Department of Parliamentary Library, 1999 at http://aph.gov.au. See also Copyright Amendment (Importation of Sound Recordings) Act 1999.

[54]At page 495.

[55]Footnote 8 above.

[56]Footnote 28 above.

the fact that this is entirely a policy matter - whether or not to accept the anti-competitive nature of prohibitions on parallel imports.

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Estoppel In The Irish Courts - The Ebb And Flow Of Unconscionability: Recent Developments

Introduction

> "The Equity has been differently expressed from time to time. In *Dillwyn* v. *Llewelyn*, it was expressed as operating through providing valuable consideration which in the circumstances established a contract. In *Plimmer* v. *Wellington Corporation*, it was expressed as making a revocable licence irrevocable. It has also been expressed from time to time as operating by a form of estoppel. The foundation of it, however, in all these instances, is the recognition by the court that it would be unconscionable in the circumstances for a legal owner fully to exercise his legal rights."[1]

What gives rise to a valid estoppel in equity? This soul-searching question has been asked on many occasions and the answer appears to be quite elusive. Irish Equity students are taught that estoppel arises in different guises and that its components and the subsequent relief obtainable under its aegis depend on the type of estoppel raised. Thus, traditionally, we speak in terms of promissory estoppel being available in the context of legal relations; giving rise to personal rights; and being capable of use only as a sword and not a shield. In contrast, consideration of proprietary estoppel tends to centre on the constituent elements of assurance, reliance and detriment, with our eyes fixed firmly on the greater rewards, in terms of proprietary interests, available at the end of this equitable route. In recent years, however, particularly in light of Australian developments, considerable attention has been focused on unconscionability's place in the estoppel framework. Is there a need for separate types of estoppel or should we really talk in terms of "one overarching doctrine" or an estoppel "shorn of

[1] *Ward* v. *Kirkland* [1967] Ch 194, at page 235.