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Date of the judgement

2007.11.08

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Case Number

2006(Ju)826

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Reporter

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Title

Judgment upon the permissibility of the use of a patent by the patent holder in relation to the patented product in cases where the patent holder or the patent user, who was licensed by the patent holder, had assigned the product in Japan.

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Case name

Request for an injunction against an infringement of a patent

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Result

Judgement of the First Petty Bench, dismissed

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Court of the Second Instance

Intellectual Property High Court, Judgement of January 31, 2006

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Summary of the judgement

1. If the patent holder, or the licensee who was licensed by the patent holder, assigned the patented product in Japan, the patent regarding this patented product is exhausted since it has achieved its purpose by the assignment and thus, the effect of the patent does not extend to the

use, assignment etc. of the patented product and therefore, the patent holder is not entitled to exercise the patent in relation to the patented product.

2. If the patented product, assigned in Japan by the patent holder or by a licensee who was licensed by the patent holder, has been modified or its components replaced, and as a result, can be regarded as a novel production of the patented product not identical to the original patented product, the patent holder is entitled to exercise their patent right over this patented product.

3. If the patented product, assigned in Japan by the patent holder or by a licensee who was licensed by the patent holder, has been modified or its components replaced, whether such modification etc. is a novel production of this patented product and whether the patent holder is subsequently allowed to exercise the patent right over it, should be determined by taking into consideration the characteristics of the patented product, the content of the patented invention, the manner of modification and the exchange of components as well as the circumstances involving the transaction, in a comprehensive manner.

4. If a patented product, which was assigned abroad by a patent holder or by those who can be equated with the patent holder in Japan, has been modified or its components replaced, and as a result, can be regarded as a novel production of the patented product, not identical to the original patented product, the patent holder is entitled to exercise the patent right over this patented product in Japan.

5. If a patented product which was assigned outside Japan by a patent holder or by those who can be equated with the patent holder in Japan, has been modified or its components replaced, whether such modification etc. is a novel production of the patented product and whether the patent holder is subsequently allowed to exercise the patent right over it, should be determined by taking into consideration the characteristics of the patented product, the content of the patented invention, the manner of modification and the exchange of components as well as the circumstances involving the transaction in a comprehensive way.

6. X, the patent holder of the ink cartridge (ink tank) for ink jet printers, put these cartridges (hereinafter, "X's products") on sale inside and outside Japan, Y imported cartridges in which X's used products were cleaned and had ink freshly injected into them (hereinafter, "Y's products") and sold them in Japan. In such cases, if the manner of modification in the process of producing Y's products is not only the supplement of the ink, but also involved modification, such as the modification of the cartridge itself, which had not been structurally designed for the refill of ink because this would decrease the printing quality and cause the cartridge to malfunction if, in order to enable the supplementing of the ink, the product comes to lack the structure, which is an essential part of the patented invention, ink is supplemented again and the effect and function of this patented invention has been newly enabled. Also considering the circumstances of trade involving ink cartridges, under such circumstances, Y's product is a

novel production of the patented product which is not identical to X's product before modification, and should not be an object of restriction of the exercise of the patent right. Therefore, X is entitled to seek an injunction for the importation, sale etc. of Y's products and to require destruction of these products on the basis of its patent.

References

(Concerning 1 to 6) Article 68 of the Patent Act; (Concerning 6) Article 100 of the Patent Act

Article 68 of the Patent Act

A patentee shall have the exclusive right to work the patented invention as a business; provided, however, that where an exclusive license regarding the patent right is granted to a licensee, this shall not apply to the extent that the exclusive licensee is licensed to exclusively work the patented invention.

Article 100 of the Patent Act

(1) A patentee or exclusive licensee may demand a person who infringes or is likely to infringe the patent right or exclusive license to stop or prevent such infringement.

(2) In making a demand under the preceding paragraph, the patentee or exclusive licensee may demand measures necessary for the prevention of such infringement including the disposal of products constituting such act of infringement (including, in the case of a patented invention of a process of producing products, products produced by the act of infringement; the same shall apply in Article 102, para.1) and the removal of facilities used for the act of infringement.

Main text of the judgement

The appeal to the Supreme Court shall be dismissed.

The cost of the appeal to the Supreme Court shall be borne by the appellant.

Reasons

On the ground of the application for certiorari by the representatives for the appeal to the Supreme Court, KAMIYAMA Hiroshi, MATSUYAMA Haruka, and KAWAI Nobuyuki:

1. The present case involves a case where the appellee to the Supreme Court who holds a patent regarding ink cartridges for ink jet printers has demanded vis a vis the appellant the termination

of the importation and sale of its ink cartridges and the abandonment of the products on the ground that they fall within the technical scope of the invention patented to the appellee.

2. The outline of the facts lawfully established by the original instance court is as follows:

(1) The patent

The appellee holds a patent which is named “the cartridge to store liquid, the method of production of the cartridge, the package of the cartridge, and ink head jet cartridge, and the system for the recording of supply of liquid which combines the cartridge and the recording head” (Patent No.3278410, hereinafter, “the Patent”).

(2) The Invention

a. Item 1 of the scope of patent application in the specification which is attached to the application for the Patent, is as follows (hereinafter, the invention regarding Item 1 shall be called “the Invention”):

In the cartridge for the container of liquid there are the following characteristics:

In the container of liquid which comprises a container of materials generative negative pressure accommodating the first and second materials which generate negative pressure put together under negative pressure and the part which the air goes through, and the space for liquid contains liquid supplied to the above mentioned materials which generate negative pressure and constitutes a substantially closed space, and the partition wall which divides the above containers and forms the above connecting channel, the facet of the pressurised contact point where materials 1 and 2 are put together crosses with the above partition, and the first material which generates negative pressure is connected to the above facet of the pressurised contact point, but it is connected to the air connection part only through the facet of the pressurised connecting point, while the second material which generates negative pressure is connected to the air connection part only through the facet of the pressurised connecting point.

The capillary force of the facet of the pressurised connecting point is higher than that of the first and second materials which generate negative pressure, and regardless of the posture of the cartridge, the amount of liquid which is sustainable by the entire facet of the pressurised connecting point is stored in the container which accommodates the above materials.

b. The Invention involves ink cartridges which are used in ink jet printers. As an ink cartridge based upon conventional technology, in order to contain the ink in the cartridge without leakage, to increase the amount of ink to be contained per cubic, and to ensure the stable supply of ink, the inside of the cartridge is divided into several rooms by a partition, and materials which generate negative pressure (urethane foam and other porous body, or felt which absorbs ink) are accommodated in the room on the side of the supply outlet to the printer (container which contains the materials which generate negative pressure) and absorb ink, while the other part

(liquid container) does not store materials which generate negative pressure, but ink is directly injected. However, in a structure of ink cartridges, if the container space for the liquid is placed above the container for materials which generate negative pressure at the time of transportation and are in the container before the beginning of use, the air inside the container which generates negative pressure is replaced by the ink inside the container for materials which generate negative pressure through the exchange of liquid and gaseous bodies and the ink inside the liquid container leaks into the container for materials generating negative pressure through the connection hole, and the area of the materials generating negative pressure is permeated with ink, and thus the ink overflows from the container. When the package is opened, there were cases where the ink had leaked from the liquid supply hole and had smeared the hands of users. The Invention (a) the container of materials which generate negative pressure, contains two kinds of materials (the first on the side of the connection with the liquid container and the second on the side of the connection to the air), presses them together, and sets the capillary force of the facet of the connecting part which is the bordering layer, higher than that of each of the above materials which generates negative pressure (component H), and (b) regardless of the posture of the ink cartridge, stores a sufficient amount of ink which is sustainable by the entire facet of the connecting part in the container for the materials which generate negative pressure (Component K) and as a result of this, creates a barrier which prevents the movement of air and thus ensures that regardless of the posture of the cartridge, the ink within the container does not leak to the container of materials which generate negative pressure and the ink then overflows from this part, and thus the leakage of ink when the package is opened is prevented. Components H and K are the essential part of the Invention, i.e. the characteristic part which comprises the core of the technical idea which underlies the unique means of a technical solution in a patented Invention.

(3) The product of the appellee

(a) The appellee produces products which utilise the Invention (Product No. BCI-3eBK, BCI-3eY, BCI-3eM, BCI-3eC cartridges for ink jet printers. Hereinafter, “Products of the appellee”) and sells them in Japan and abroad. Affiliated companies of the appellee which were licensed by the appellee also sell the Products of the appellee abroad. Incidentally, regarding the Products of the appellee that are sold abroad, there is no agreement with the assignee to the effect that Japan should be excluded from the areas of sale or use, nor is there any explicit declaration to this effect on the Products of the appellee.

(b) With the Products of the appellee, once the cartridge is installed in the ink jet printer and the printing starts, the ink is supplied from the outlet and decreases, and after some time of using it, part or all of the facet of the pressurised connecting part of the first and second materials, made of textiles which generate negative pressure, ceases to hold the ink. However, even after this,

printing is still possible.

(c) With the Products of the appellee, if the ink comes into shortage, it is removed from the printer as a used cartridge. In the used Products of the appellee, there is some ink left on the wall of the liquid container, inside the first and second materials which generate negative pressure, on the facet of the pressurised connection of both materials, and on the ink supplying outlet etc. In the used Products of the appellee after being removed from the printer, as time passes by, the ink left within the cartridge dries up, and 7-10 days after the removal, dried ink is stuck in an uneven state in the numerous microscopic cracks of the materials which generate negative pressure, including the facet, and as a result, the materials can no longer absorb ink. Therefore, if ink is refilled in the used Products of the appellee in that state, it is possible to fix it to the ink jet printer as an ink cartridge and print documents, but even if the ink filled the entire liquid container, or up to the part which exceeds the facet of the pressurised contact part of the materials generating negative pressure within the container, the function of forming a partition prevents the movement of air at the facet of the pressurised connecting point would be affected.

Incidentally, the Products of the appellee do not have an opening for the refill of ink.

(d) The retail price of the Products of the appellee is around 800 to 1,000 yen.

(4) The product of the appellant

(a) The appellant imports ink cartridges, on Lists (1) and (2) attached to the judgment of the original instance court that fall within the technical scope of the Invention (hereinafter, “the Product of the appellant”) from a company located in Macao of the Peoples’ Republic of China (the name of the company is not known. Hereinafter, “company A”) and sells them in Japan. The Products of the appellant (hereinafter, “the Ink Cartridges,”) are those which an affiliated company of company A (the name of the company is not known. Hereinafter, “company B”) collects in Japan as well as abroad the used Products of the appellee (hereinafter, “the Ink Cartridges shell”) and which a subsidiary of Company B (the name of the company is not known. Hereinafter, “company C”) purchased them, and as explained below, using the Ink Cartridge, cleaned the insides, and freshly filled them with ink. Company A purchased them and exported them to the appellant.

(b) Regarding the Ink Cartridges body, after they have been removed from the printer and have become a product at Company C and thus, become a Product of the appellant, more than 7-10 days, e.g. the period in which the remaining ink inside the cartridge is stuck, passes, and thus, before they are marketable, the materials which generate negative pressure become incapable of newly absorbing ink, and in a state where the function to form a barrier to prevent the movement of air at the facet of the pressurised contact part no longer exists.

(c) The production process of the Products of the appellant at Company C is as follows:

- (i) open a hole on the topside of the liquid container of the Ink Cartridge;
 - (ii) clean the inside of the Ink Cartridge;
 - (iii) take measures to prevent the leakage of ink from the ink supply outlet of the Ink Cartridge;
 - (iv) inject ink into the part just above the facet of the pressurised contact point of the materials which generate negative pressure inside the container of those materials from the hole as indicated in (i);
 - (v) put a stopper in this hole as well as in the ink supply point;
 - (vi) put on a label.
- (d) In the Products of the appellant, by cleaning the inside of the Ink cartridge, the ink which was stuck to it is washed away, and it is intended to restore the function of forming a barrier to prevent the movement of the air at the facet of the pressurised contact point. The ink almost fills the liquid container and in the container of materials which generate negative pressure, the ink is filled up to the top of the facet of the pressurised contact point of the first and second materials, and thus, the entire facet is in a state to contain the ink, regardless of the posture of the Ink Cartridge.
- (e) The retail price of the Products of the appellant is 600-700 yen each.
- (5) the recovery of the used ink cartridges by the appellee;
- (a) since the reuse of the used ink cartridges by refilling them would cause the flowing channel of ink into the nozzle and would result in a lower quality of print and the malfunction of the printer, the appellee does not reuse the Products of the appellant, but uses the ink cartridge only once and replaces it with another one. In order to demonstrate that the ink cartridge is of the type of a one-off use, and to facilitate the recovery of the used products, on the package of the Products of the appellee, in the users' manual of the ink jet printer produced by the appellee and where the Products of the appellee are used, as well as in the home page of the appellee, users of the Products of the appellee are encouraged to use a new ink cartridge when replacement is needed and to ask for the cooperation of the users in the recovery of the used ink cartridges.
- (b) The manufacturers of ink jet printers, including the appellee, sell ink cartridges which are to be used with the printers produced by themselves (authentic products). On the other hand, some entrepreneurs sell ink cartridges, which are a refill of the used authentic products (recycled products). The method of production of such recycled products are more or less the same as the method of production of the Products of the appellant by Company C. The ink for refilling which is used by the users of the ink cartridge (ink for refilling) is also being sold. However, the appellee does not produce or sell recycled products or ink for refilling.

3. The original instance court ruled as follows and acknowledged the claim of the appellee.

In cases where the patent holder, or the person who was licensed by the patent holder, assigned

a product embodying the patented invention (hereinafter, “the Patented Product”), the patent is exhausted in relation to the Patented Product by attaining its purpose, and the patent holder is not entitled to exercise the right to injunction and other rights based upon the patent vis a vis the use, assignment or lease of the Patented Product any more (Supreme Court, 1995 (O) No.1988, Judgment of the Third Petit Bench of the Supreme Court, July 1, 1997, Minshu vol.51, No.6, p.2299ff). However, if (i) the Patented Product has been reused or restored and used after the expiration of the original sustainable period (Type 1), or (ii) in relation to the Patented Product, modification or exchange of parts has been made to all or part of the components which comprise the essential part of the patented invention of the Patented Product by a third party (Type 2), the patent is not exhausted, and the patent holder should be allowed to exercise their rights over the Patented Product.

Furthermore, if the patent holder of Japan or those who can be equated with this person have assigned the patented product abroad, unless there is an agreement between the patent holder and the assignee that Japan is excluded from the area of use of the Patented Product, the patent holder is not entitled to exercise rights based on the patent vis a vis a third party who has had the Patented Product assigned from the assignee, or the subsequent acquirers of the Patented Product in importing the Patented Products into Japan and using or assigning the Patented Products in Japan, except in cases where there is an explicit agreement with the assignee and this was explicitly indicated on the Patented Product (Judgment of the Third Bench of the Supreme Court, July 1, 1997, *supra*). However, (i) if the Patented Product has been reused or restored and used after the end of the use after the expiration of the original sustainable period (Type 1), or (ii) in relation to the Patented Product, modification or exchange of parts has been made to all or part of the components which comprise the essential part of the patented invention of the Patented Product by a third party (Type 2), the patent holder shall be allowed to exercise their rights over the Patented Products.

In the present case, the Products of the appellee cannot be regarded to have finished their use after the expiration of the original period of use merely by the fact that the ink which was filled at the beginning has been exhausted, and therefore, the Products of the Appellant do not fall within the category of above Type 1. However, the process of producing the Products of the appellant at Company C includes an act of cleaning the inside of the Ink Cartridge which is in a state where Components H and K that are essential parts of the Invention are not satisfied, washing away stuck ink and refilling a certain amount of ink which meets Component K. The above acts of Company C are aimed at forming the barrier which prevents the movement of air by restoring the function of the facet of the pressurised contact point which is nothing other than the modification or replacement of part of the components which constitute the essential part of the Invention of the Product of the appellee. Therefore, the Products of the appellant, regardless

of whether those that used the Products of the appellee which had been sold in Japan or abroad, fall within the category of the above Type 2 and thus the exercise of the patent right is not restricted. The appellee is entitled to demand that the appellant terminates the importation, sale etc. of its Products and to abandon them.

4. The appellant argues that the criteria of the possibility of the exercise of the patent right and the ruling that the exercise of the patent right is not to be restricted in the present case by the original instance court based upon these criteria is unlawful, but this argument cannot be accepted. The reasons are as follows:

(1) If the patent holder, or the licensee who was licensed by the patent holder (hereinafter, “patent holder etc.”), assigned the patented product in Japan, the patent regarding this patented product is exhausted since it has achieved its purpose and thus, the effect of the patent does not extend to the use, assignment etc. (the use, assignment etc., exportation or importation, offer of assignment as indicated by Article 2, para.3, subpara.2 of the Patent Act, the same in the following) of the patented product and therefore, the patent holder is not entitled to exercise the patent in relation to this patented product. This is because in such cases, if the consent of the patent holder is needed every time that the patented product is assigned, the smooth circulation of patented goods in the market and the interest of the patent holder himself would be harmed and ultimately would be against the goal of the Patent Act as provided for in Article 1 of the Act. On the other hand, the patent holder is already guaranteed an opportunity to secure a price for the publication of the patented product, and thus, there is no necessity of allowing the patent holder to profit twice in the process of circulation of the patented products which the patent holder had assigned (Judgment of the Third Petit Bench of the Supreme Court, July 1, 1997, *supra*). Such exhaustion of rights is explicitly provided for in Article 12, para.3 of the Act on the Semi-Conductor Circuit Layout and Article 21, para.4 of the Seed and Plant Act, and the same restriction to the exercise of rights should apply to patents.

However, the objects on which the exercise of the patent right is restricted, because of its exhaustion, should be the patented products themselves that the patent holder had assigned in Japan. If the patented product, assigned in Japan by the patent holder or the licensee who was licensed by the patent holder, has been modified or its components replaced, and as a result, it can be regarded as a novel production of the patented product which is not identical to the first patented product, the patent holder is entitled to exercise the patent right over this patented product. Whether the product can be regarded as a novel production of this patented product or not should be determined by taking into consideration the characteristics of the patented product, the content of the patented invention, the manner of modification and the exchange of components as well as the circumstances involving the transaction in a comprehensive way. As

characteristics of the Patented Product, the function of the product, structure and materials, application, usable life, mode of use, and as the manner of modification or replacement of components, the state of the Patented Product at the time of modification, the content and extent of the modification, the usable life of the replaced components, the technical function and the economic value of the component within the Patented Product should be taken into account.

(2) In the case of a patented product which was assigned abroad by a patent holder or by those who can be equated with the patent holder in Japan (hereinafter, “Japanese patent holders etc.”), unless there is an agreement between the patent holder and the assignee that the Japan is excluded from the area of use of the Patented Product, the patent holder is not entitled to exercise rights based on the patent vis a vis a third party who has had the Patented Product assigned by an assignee, or the subsequent acquirers of the Patented Product in importing the Patented Products into Japan and using or assigning the Products in Japan, except in cases where there is an explicit agreement with the assignee and this was explicitly indicated on the Patented Product (Judgment of the Third Petit Bench of the Supreme Court, July 1, 1997, *supra*). Objects over which the exercise of the patent right is restricted are limited to the patented goods that Japanese patent holder etc. has assigned outside Japan. This is the same as in cases where the patent holders etc, assigned the patented product in Japan. If a patented product, which was assigned abroad by a patent holder or by those who can be equated with the patent holder in Japan, has been modified or its components replaced, and as a result, it can be regarded as a novel production of the patented product which is not identical to the original patented product, the patent holder is entitled to exercise the patent right over this patented product in Japan. Whether this is a novel production of the patented product or not shall be determined in accordance with the same criteria as in a case where patented products which had been assigned by the patent holder etc. in Japan were modified or their components replaced.

(3) In the present case, according to the facts explained above, if the Ink Cartridge of the appellee is to be used again by refilling ink, it would result in a lower quality of print and the malfunction of the printer, and therefore, the appellee does not reuse the Products of the appellee, but uses it only once and replaces it with another one. Thus, there is no open hole for the refilling of the ink in the Products of the appellee. Because of this structure, in order to refill the ink, it is necessary to open a hole in the ink cartridge, and in the production process of the Products of the appellant, a hole is made on the upper side of the liquid container, the ink is injected, and then the hole is closed. The manner of modification in the production process of the Products of the appellant is not merely a supplement of ink, as an article of consumption, but is a modification of the ink cartridge itself to enable refilling of the ink.

Furthermore, according to the facts explained above, in the Products of the appellee, the ink itself plays the technical role of a barrier which prevents the movement of air at the facet of the

pressurised contact point. If the ink is used to a certain extent, part or all of the facet does not hold the ink. In the used Products of the appellee which are removed from the printer, after 7-10 days of the removal, dried ink is left is stuck inside, and if the ink is refilled in the used Products of the appellee in that state, even if the ink fills the entire liquid container or up to the part which exceeds the facet of the pressurised contact part of the materials generating negative pressure within the container, the function of forming a partition which prevents the movement of air at the facet of the pressurised connecting point, will be affected. In the Products of the appellant, by cleaning the inside of the Ink cartridge, the ink which was stuck to it, is washed away. It is intended to restore the function of forming a barrier to prevent the movement of the air at the facet of the pressurised contact point. By refilling the same amount of ink as the Products of the appellee before use, the entire facet is in a state to hold the ink, regardless of the posture of the Ink Cartridge. Thus, the manner of modification in the production process of the Products of the appellant is not merely a refilling of ink, but is a reuse of the Ink Cartridge and restoring the cartridge which ceased to have components relevant to the essential part of the Invention (Components H and K), which can be regarded as restoration of the material value of the Invention and newly enabling the effect of the Invention, i.e. the prevention of the leakage of ink before opening the package.

In addition, by taking into consideration all the circumstances including the state of trade of ink cartridges as indicated in the facts established above, with regards to the Products of the appellant, it should be concluded that patented products which are not identical to the Products of the appellee have been newly produced. Therefore, since the Products of the appellant which have been produced by using the Products of the appellee, i.e. used ink cartridges which the patent holders etc. had assigned in Japan or Japanese patent holders etc. had assigned outside Japan, are not an object over which the exercise of the Patent is restricted, the appellee, who is the holder of the Patent, is entitled to demand the termination of importation, sale etc. of the Products and their abandonment.

5. Thus, the ruling of the original instance court on the contested points is justifiable in conclusion, and the arguments of the appellant are not acceptable.

Therefore, the justices unanimously rule on the main text of the judgment.

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Presiding judge

Justice YOKOO Kazuko

Justice KAINAKA Tatsuo

Justice IZUMI Tokuji

Justice SAIGUCHI Chiharu

Justice WAKUI Norio

(Translated by Sir Ernest Satow Chair of Japanese Law, University College, University of London)