Recent Development in Patent Exhaustion in Japan
Speech for CASRIP High-Tech Summit

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Intellectual Property High Court
of Japan

1. Introduction

- Our IP High Court
  Established Apr. 2005
- Today' s Topics
  - 2.Patent Exhaustion
  - 3. 2-Types of approach
  - 4.Canon ink tank case

2. Patent Exhaustion

- 2-1 Historical background
- 2-2 BBS case

2-1 Historical background

- 1885 Patent Monopoly Act
- 1959 Patent Law

2-2 BBS Case

- B.B.S case

  The Supreme Court first applied the doctrine of patent exhaustion to the B.B.S. parallel import case (July 1, 1997).

2-2 BBS Case

- The Supreme Court admitted the patent exhaustion and said,
- “(1) while the protection of invention under the patent law must be realized in harmony with the social and public interest,

2-2 BBS Case

(2) in assignments, the assignor transfers all the rights to the assignee and the assignee acquires all the rights which belonged to the assignor.

2-2 BBS Case

- (3) On the other hand, the patent holder has received payment including remuneration for making the patented invention publicly available by assigning the patented products by himself and receives a license fee for licensing the use of patents.

2-2 BBS Case

- “Therefore, the opportunity for securing compensation for making the patented invention available to the public has been granted, and there is no necessity to allow the patent holder to profit again in the process of circulation of goods in the market from the patented products which have already been assigned by the patent holder or the licensee.”

3. Production approach, Exhaustion approach

- Theoretical grounds of patent exhaustion are often explained by different perspective, production approach and exhaustion approach.

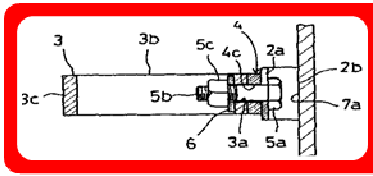
3-1 Production approach

- Patent law provides, for an invention relating to a product, that a patentee has the exclusive right to produce, use or transfer (Art.2,para.3,item 1).
- On this ground, production approach allows enforcement of the patent right when the alternation, or the replacement of the part is deemed "production" rather than "use" in which re-using of patented goods is allowed.

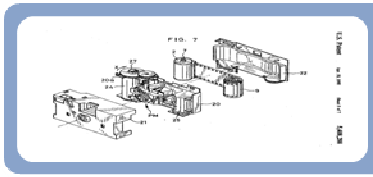
Trial court (lower court)judgment

1. Crushing hammers case (Exhaustion - No: Osaka District Court, April 24, 1989)

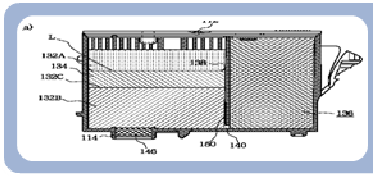
2. Acyclovir case (Yes: Tokyo High Court, November 29, 2001)



3. Metal step case (Yes: Osaka District Court, November 26, 2002)



4. Fuji film "Film unit with lens" case (No: Tokyo District Court, April 24, 2007)

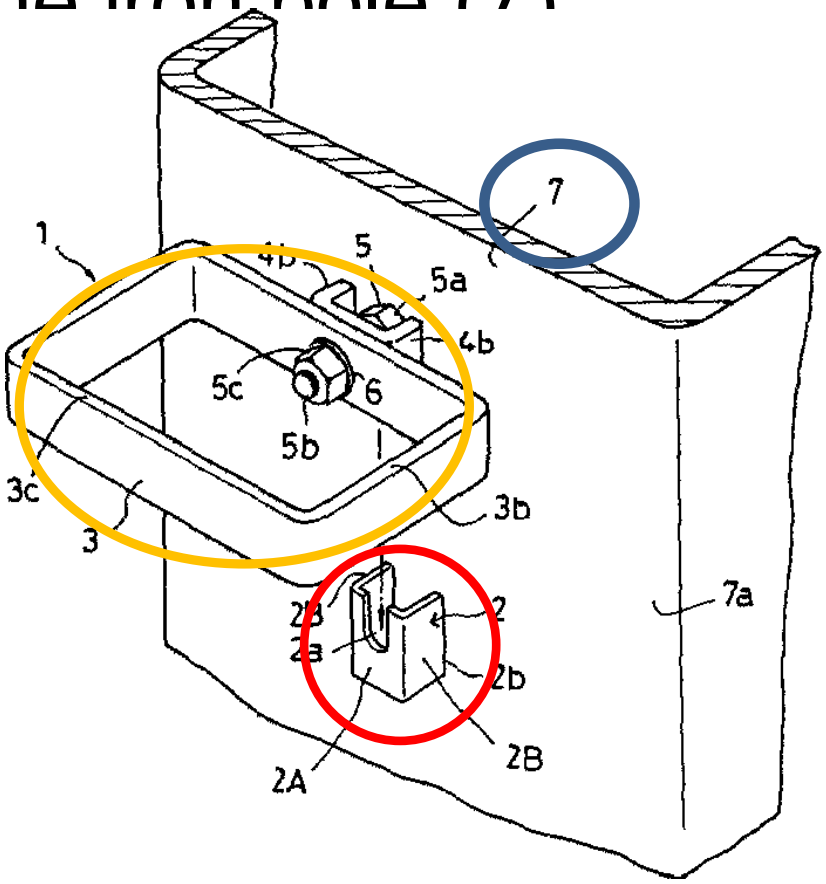


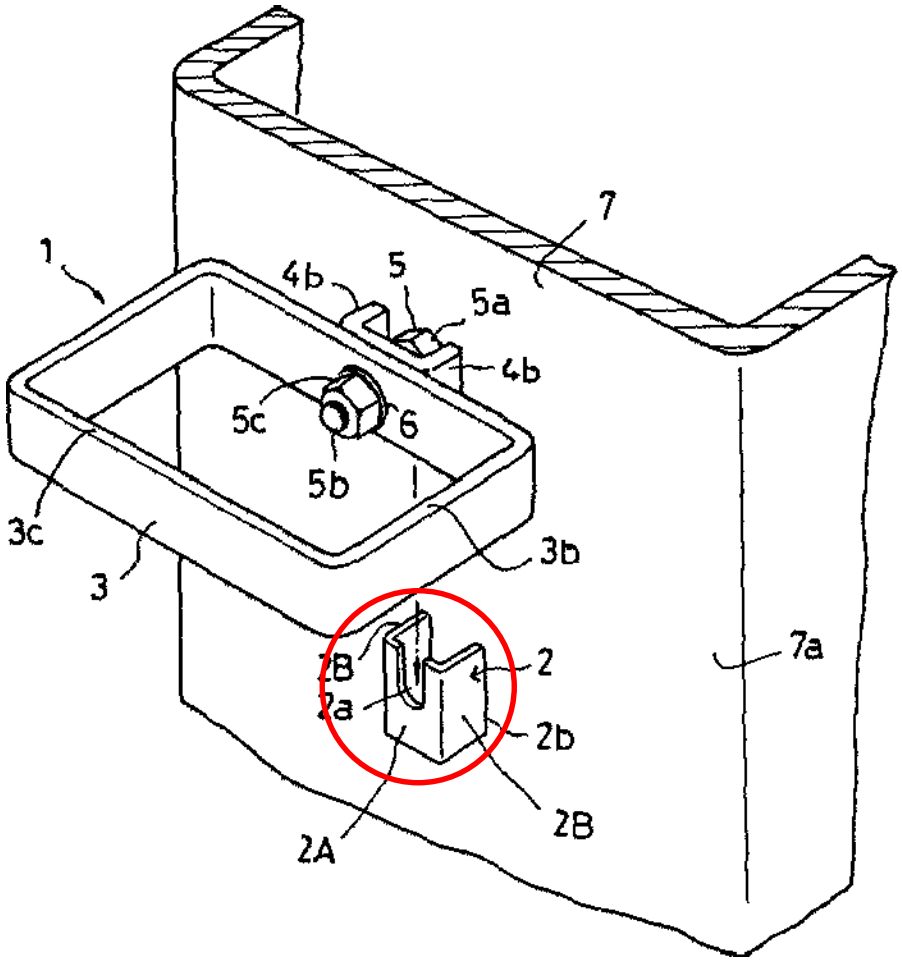
5. Canon ink tank case (No: Supreme Court, November 8, 2007)

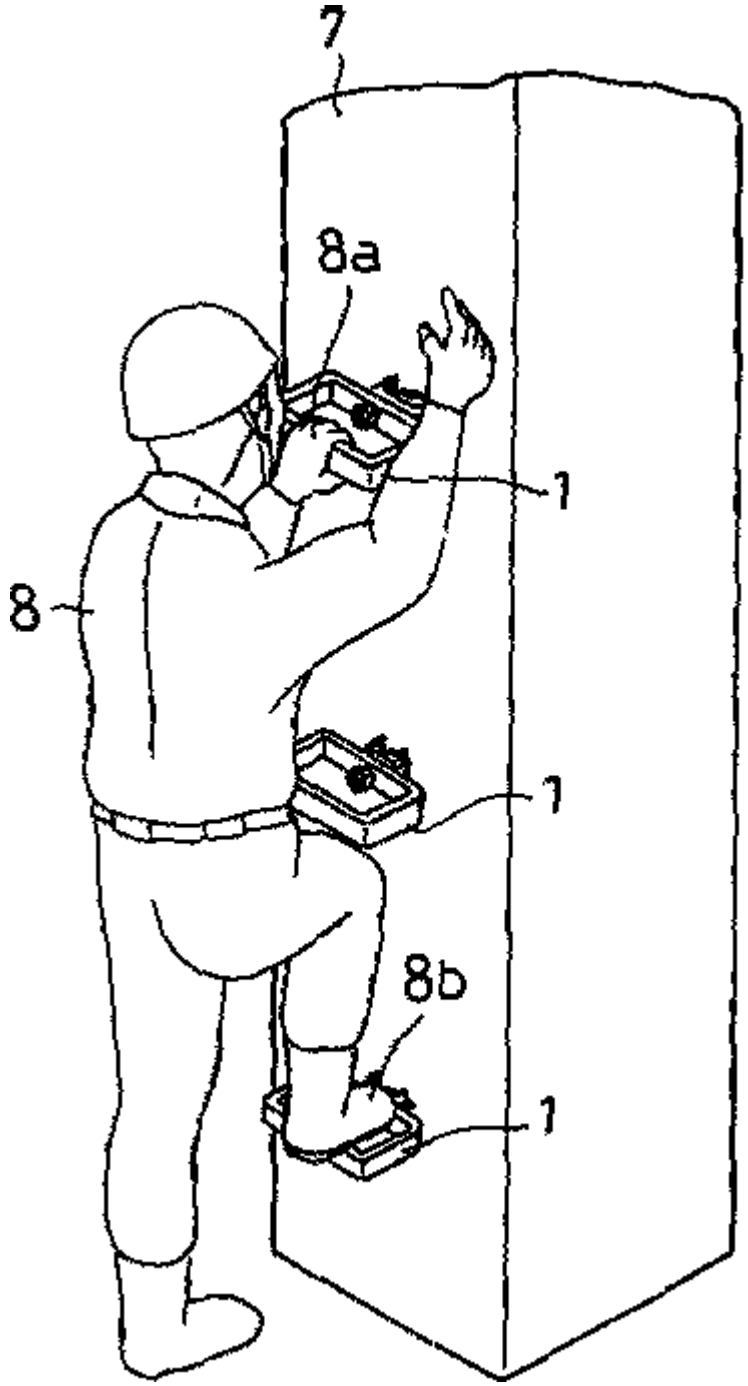
- Ex. Metal step case (above stated, Osaka District Court, November 26, 2002)

- Plaintiff has a utility model right and sells its products concerning the metal step which comprises of the trap (1) and the bearer (2). The bearer is single-use only because it is welded to the iron pole (7)

but the trap can be removed and used several times







Defendant sells only bearer.

- The court approved the defense of exhaustion
- "In the case that the component of the protected combination has apparently shorter useful life and easily repairable, the act of replacement after terminating its lifetime seems like the production prohibited by the utility model right law (Art.2 (3)), but in those circumstances, the utility model right is exhausted, and the act of replacement is not the indirect

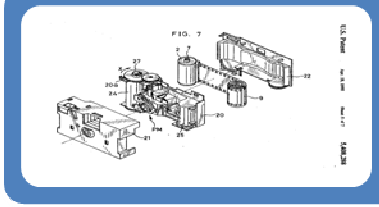
- “The bearer, which is the component of the protected combination of the metal step, has a shorter useful life than the combination of the metal step as a whole, the bearer is not the substantial part of the utility model as well. In these circumstances, utility model right is exhausted."

3-2 Exhaustion approach

- Exhaustion approach is a theory to specifically and substantively decide the scope of the patent exhaustion by employing the purpose-oriented interpretation on the ground of the purpose of exhaustion which seeks to equilibrate the interests of protecting patented invention and the securance of transactions

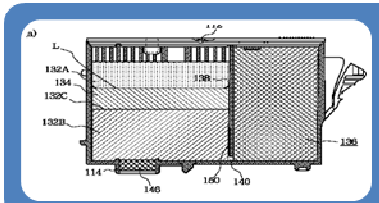
Trial court (lower court)judgment

1. Konica Disposable Camera case (No: Tokyo District Court, June 6, 2000)



2. Disposable Camera case (No: Tokyo District Court, August 31, 2000)

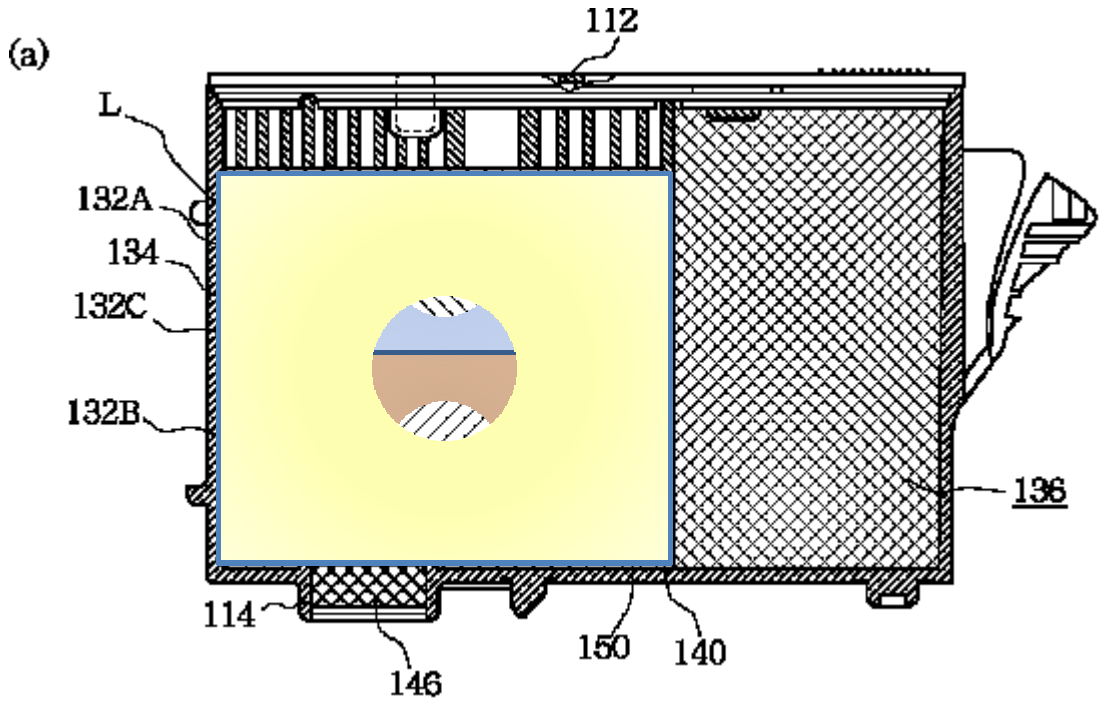
3. Acyclovir case (Yes: Tokyo District Court, January 18, 2002)



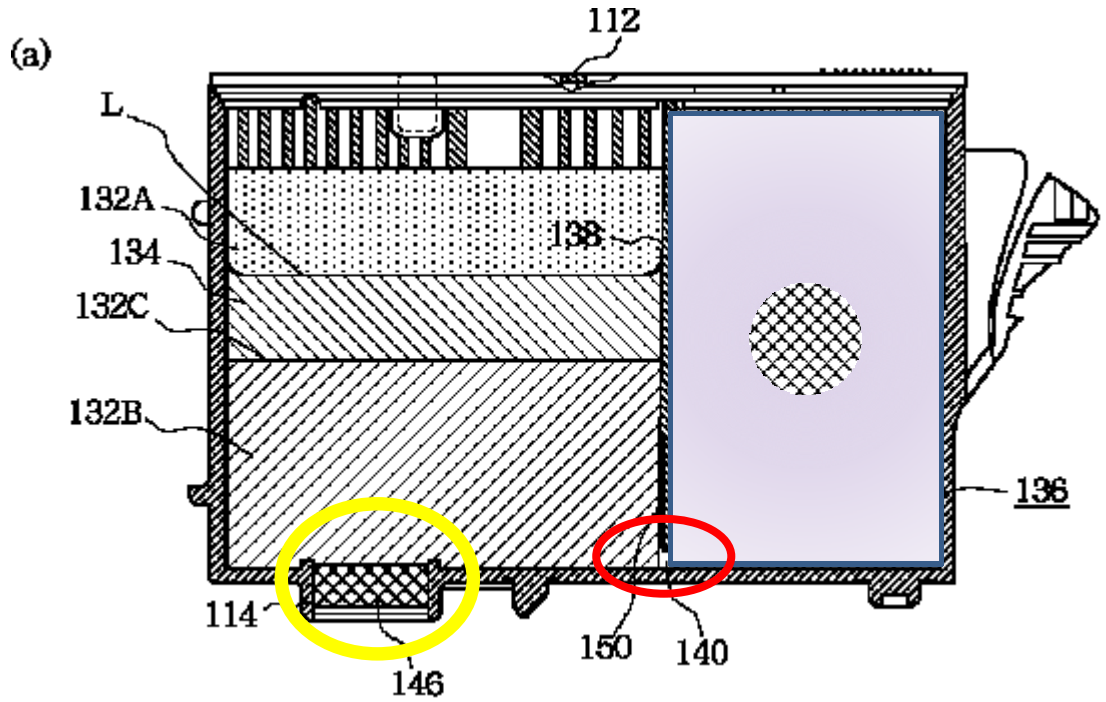
4. Ink tank case (No: IP High Court, January 31, 2006)

4. Canon ink tank case (The Supreme court judgment November 8, 2007)

- 4-1 Canon (Plaintiff) is the holder of the patent concerning liquid container (Patent No.3278410,JP),separately patented from the ink-jet printer itself.



- The patented invention relates to a liquid container, said liquid container having a negative pressure generating member containing chamber (134) containing therein first and second negative pressure generating members (132A, 132B) urged against each other;



- a liquid(ink) containing chamber (136) provided with a communicating portion (140) communicating with said negative pressure generating member containing chamber (134) and forming a space and storing therein liquid to be supplied to said negative pressure generating members (132A, 132B).
- Liquid(ink) comes out from the liquid supplying portion(114).

Canon manufactures and sells the ink tanks claimed by the patent.

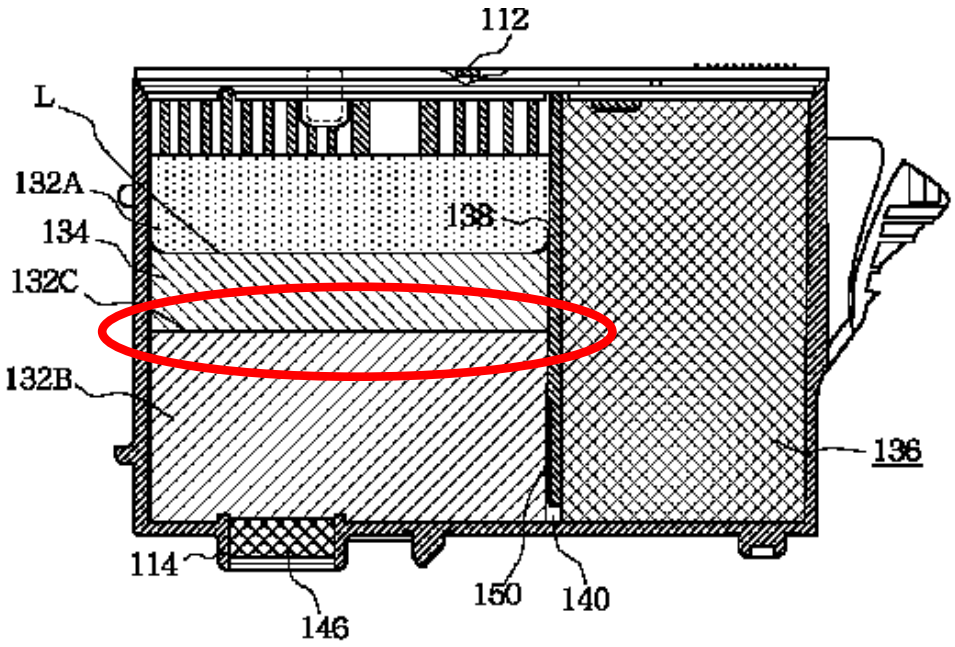
4-2 The accused activities

- Recycling business entity (Defendant) collected used ink tank from the purchaser of the patented articles and refilled ink into ink tanks for marketing.
- Although original ink tank has no opening section for ink refills, Defendant made a hole at the upper surface of the liquid containing chamber (136), and washed the inside of the ink tank covered by the remaining ink in order to recover the function of feature (H) below stated.
- Defendant closed the hole after refilling the ink in a manner that the whole area of the interfaces to recover the function of feature (K).
- Defendant sold as a single use ink tank about 25~30% lower price compared to the patented article.

4-3 Features of this patent

- Feature (H) is a structure where the negative pressure generating member storage chamber stores two negative pressure generating members (132A,132B),and the capillary attraction at the interfaces (132C)

of the two negativ members is larger than those of the respective membe



- Feature (K) is a structure where the ink tank contains sufficient liquid in a manner that the whole area of the interfaces (132c) retains the ink regardless of the posture of the ink tank.

- Due to those features, a barrier is formed at the interfaces (132c) of the negative pressure generating members to block air communication between the members.
- Therefore, in any posture, the interfaces(132c) cooperates with the partition wall and the ink contained in the negative pressure generating member containing chamber to function as gas introduction blocking means for blocking the introduction of gas from the communicating portion 140 and the atmosphere introduction path 150 into the liquid containing chamber and thus, it never happens that the ink overflows from the negative pressure generating members.

- Feature H and K are lost by the certain period of time has passed after the ink is used up and the ink tank is taken out of the printer, because the remained ink solidified inside.

4-4 Judgment of the trial court

- Tokyo district court (December 8, 2004) concluded Canon's patent is exhausted.
- But IP High court of the grand panel found that the patent is not exhausted because the patented ink tank lost its constituent features (H and K) and Defendant restored these features.

4-5 Supreme Court judgment

- The Supreme Court also found that Canon's patent is not exhausted and said,

- " Whether or not the patentee of the patented product may be allowed to exercise the patent right with regard to the newly produced patented product shall be judged in comprehensive consideration of the actual dealing conditions of the said patented product in addition to the attribute, details of the patented invention, and the form of the processing and changes in materials of the original patented product."

- "The manner of the process of producing Defendant’s products shows that the process serves as not just refilling the used ink cartridge with ink, which are not constructed to be refilled with ink in order to prevent the failure of printers and printing quality degradation, but also changing the shape of the ink cartridge for refilling with ink and reviving the used ink tank, while reproducing the elements(Features H and K) constructing the substantial part of the patented invention to regenerate the working effect of the said invention above.”

- “Furthermore, the Defendant’s product is a newly produced patented product that is not identical to the Canon product in light of the actual dealing conditions given in the decision above, and therefore the exercise of patent right is not to be restricted.”

5. Closing remarks

- After Canon case judgment, whether patent right is exhausted or not depends on the comprehensive evaluation of various factors. Consequently, there is a criticism that Supreme Court standard is not definite enough to diverse cases.

- But, as the attribute of the patented product, the Supreme Court said that the function, the structure and raw materials of said patented product should be considered.
- Also, as the manner of the processing and the replacement of the parts, the condition of said patented product after processed, the detail and extent of the processing, prevailing lifetime of the replaced parts, technical function and economical value of the parts composed in the patented product as a whole should be considered.

- **Anyway, our Supreme Court seeks to accomplish a balance between the protection of the right of inventor and the public interest, this attitude is consistent to the recent tendency of the world.**

Thank you very much!