

# Patent Exhaustion in Japan

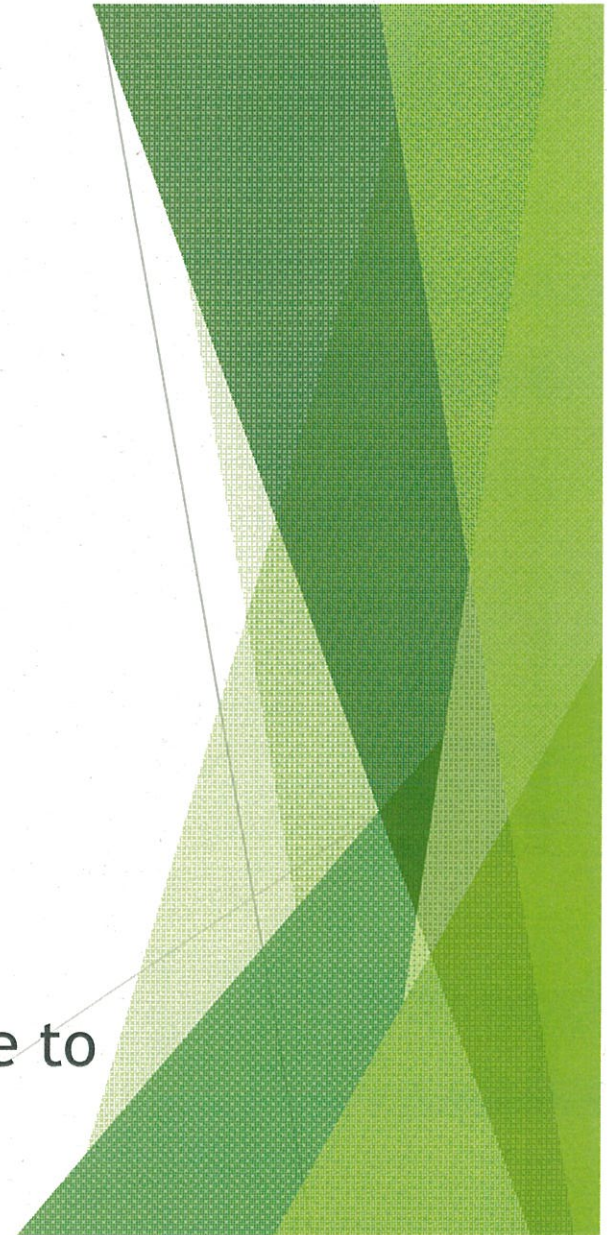
(for CASRIP, July 14, 2017)

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Judge, IP High Court of Japan

# 1 Domestic / International Exhaustion

- ▷ domestic exhaustion
  - generally accepted principle
  - repair / reproduction cases at issue
- ▷ international exhaustion
  - few cases before BBS case
  - divided views
- ▷ theoretical consistency is desirable  
however, difficult to rely on particular theory due to  
necessity to balance interests





## 2 Provisions of the Patent Act

### Article 68

A patentee shall have the exclusive right to work the patented invention as a business

### Article 2(3)

"Working" of an invention in this Act means the following acts:

(i) in the case of an invention of a product..., producing, using, **assigning**, etc..., exporting or **importing**, or offering for assignment, etc. ...thereof;

- no explicit provisions on exhaustion
- burden to prove exhaustion is generally on alleged infringer

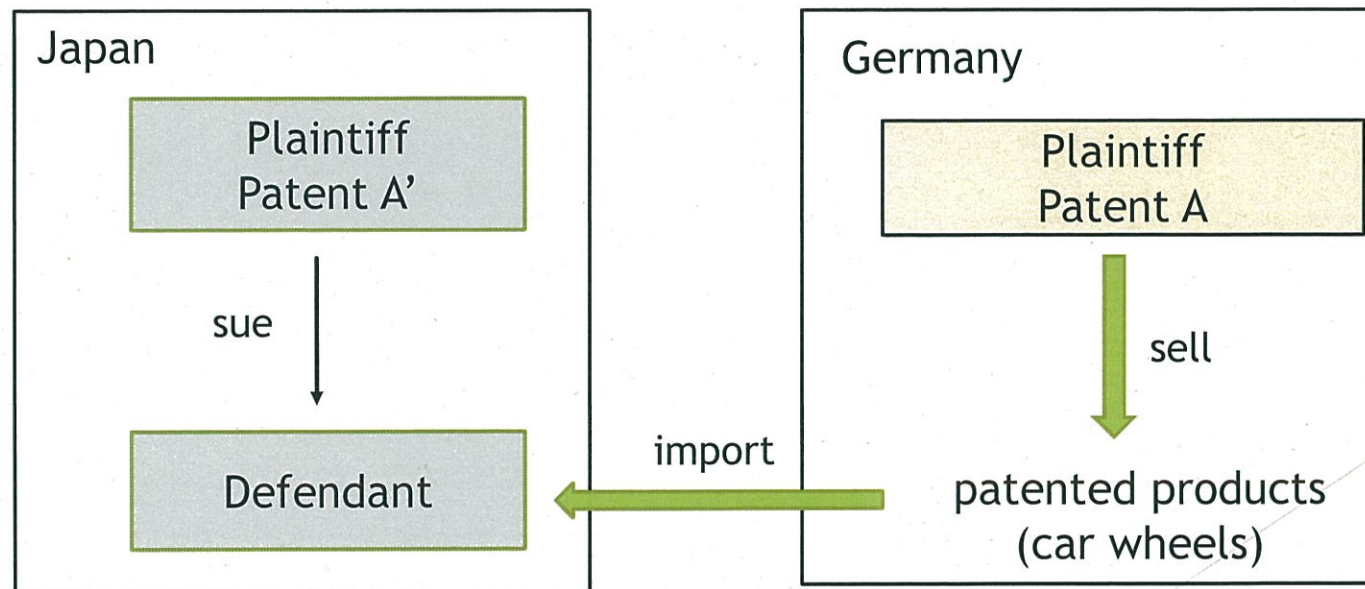


## 3-1 BBS case

### ▷ backgrounds

- disparity between domestic and foreign prices in 1980's
- trademark litigation was dismissed by the district court

### ▷ case summary





## 3-2 BBS case (continued)

Tokyo District Court decision (July 22, 1994)

Patent is **not exhausted**.

- ① lack of explicit provisions
- ② A patent holder who has corresponding patents in several countries should be entitled to control the transborder transaction since those patents are granted in return for contribution to economy and technology of the country where the patent is granted.
- ③ Long term effects on exhaustion is uncertain. There may be undesirable effects on domestic and global economy.

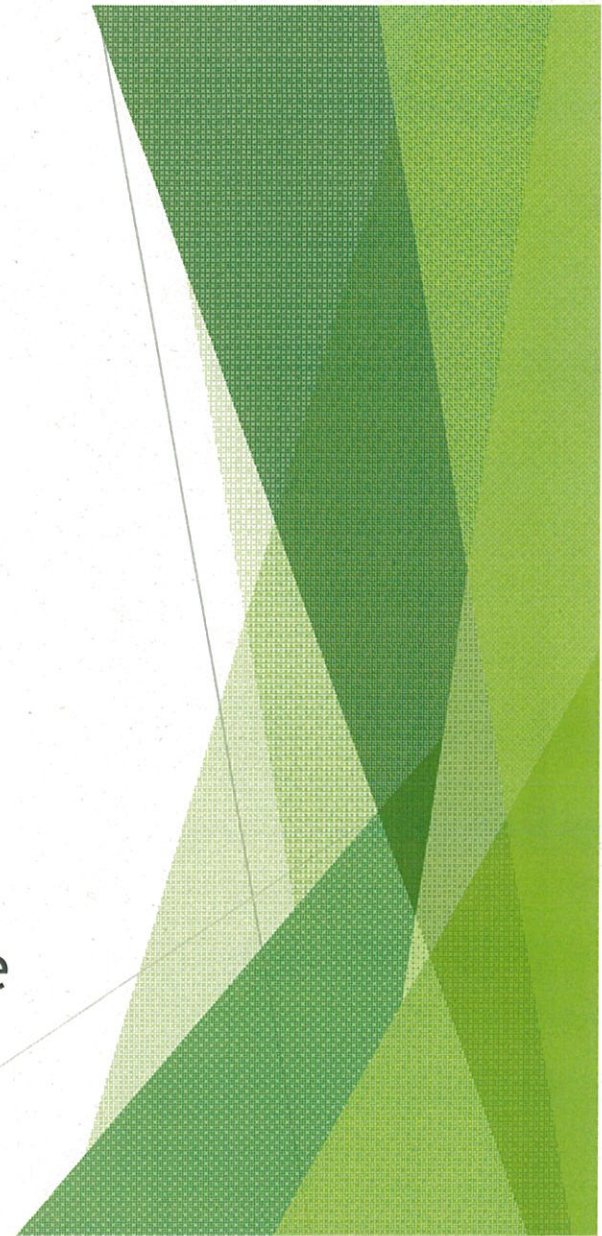


### 3-3 BBS case (continued)

Tokyo High Court decision (March 23, 1995)

Patent is **exhausted**.

- ① As far as the patent holder can freely decide the price of the patented product, the patent holder should not be given the second opportunity to gain the profit from the same product.
- ② Interests and circumstances to be considered are same as domestic exhaustion.





## 3-4 BBS case (continued)

Supreme Court decision (July 1, 1997)

Patent is **exhausted unless patent holder meets requirements set forth by this decision.**

### ▷ Domestic Exhaustion

If the patent holder or the licensee assigned the patented products in Japan, the patent right has achieved its goal and has been exhausted.

- ① When the patented products are placed in the market for distribution, assignees should acquire the right to freely use and reassign the products.
- ② There is no necessity to allow the patent holder to profit again from the same products which have already been assigned by the patent holder.

→ **confirmed traditional principle**



## 3-5 BBS case (continued)

### ▷ International Exhaustion

- ① Domestic exhaustion rule cannot be applied to international exhaustion in the same way.
- ② Necessary to balance freedom of global distribution of goods and interests of patent holders
- ③ If a patent holder in Japan assigns a patented product outside Japan, the patent holder may not exercise the patent right, **unless the patent holder agrees with the assignee to exclude Japan from the areas of sale or use of the product and the agreement is explicitly indicated on the product.**



## 3-6 BBS case (continued)

- ④ If the agreement is explicitly indicated on the product, the patent holder may exercise the patent right over a person who is subsequently assigned the product from the assignee, because such person should be able to recognize that there is such a restraint on the product.
- ⑤ Subsidiaries or affiliated companies should be regarded as an equivalent of the patent holder.
- ⑥ whether or not the patent holder has a corresponding patent in another country where the patented products have been first assigned is irrelevant.



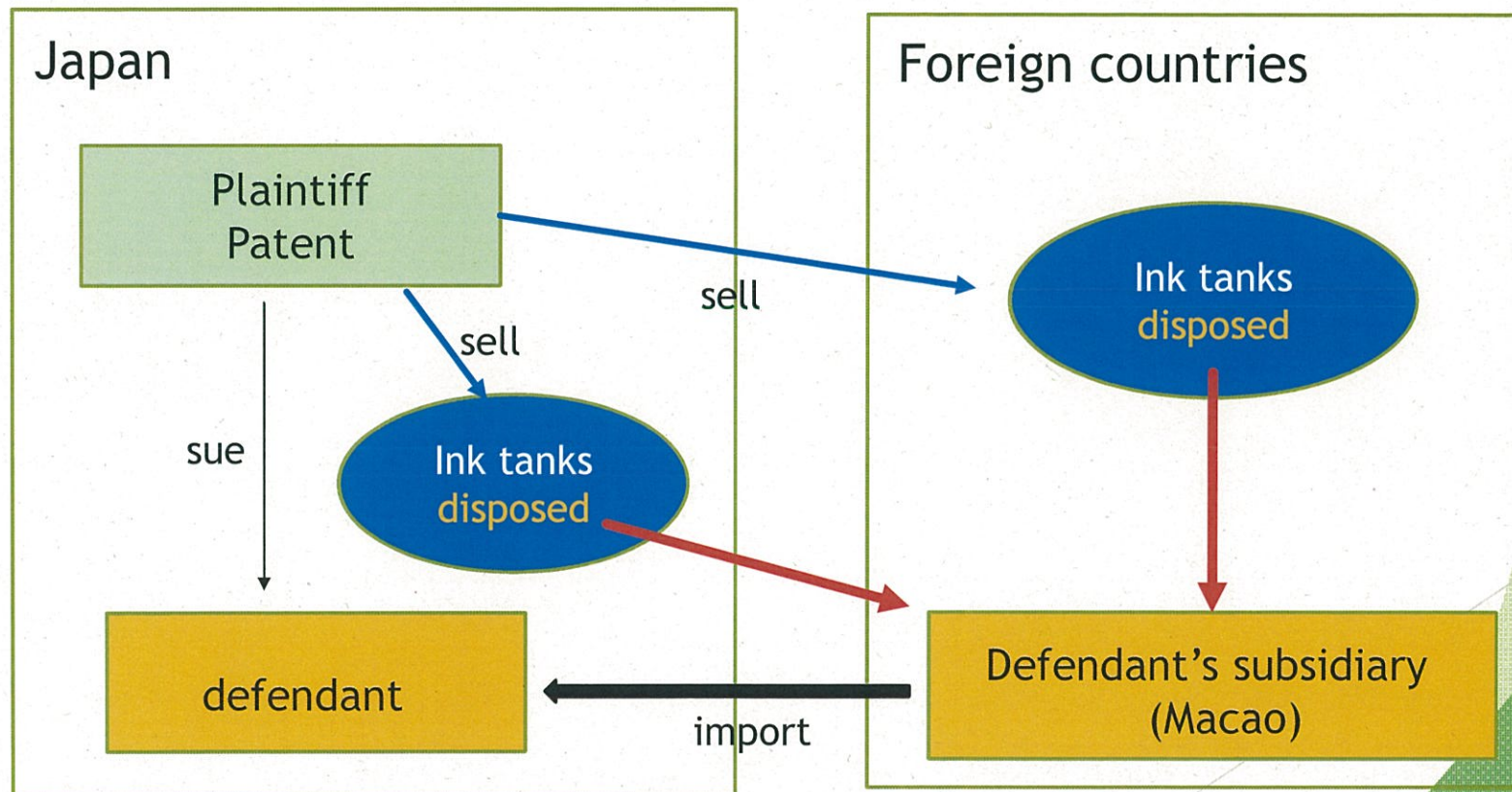
## 3-7 After BBS case

- ▷ BBS decision is generally supported as well-balancing patent right with free distribution of goods.
- ▷ Scope of the decision has been discussed.
- ▷ After the BBS case, wide use of disposal products (camera, ink cartridge, syringe, contact lens) generated another issue regarding patent exhaustion.



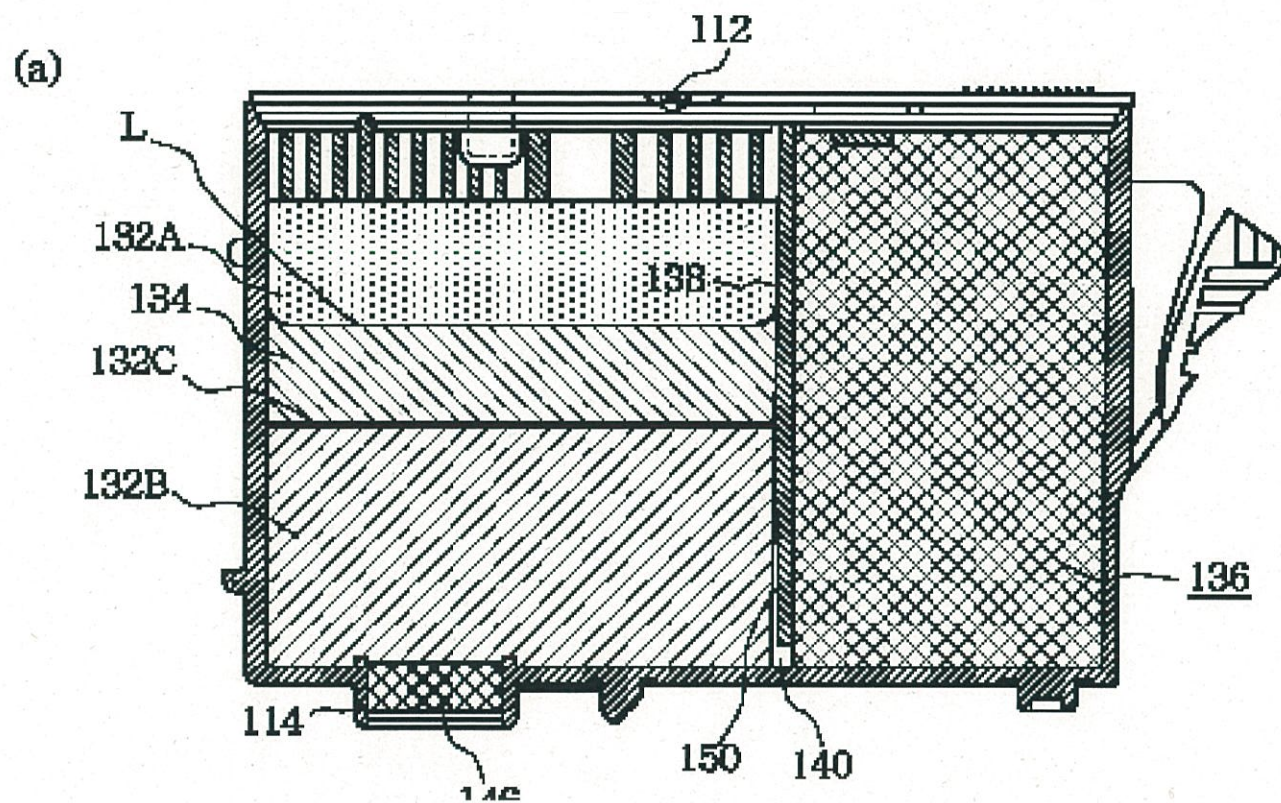
## 4-1 Ink tank case

### case summary





## 4-2 Ink tank case (continued)





## 4-3 Ink tank case (continued)

IP High Court decision (Jan. 31, 2006)

Patent is **not exhausted**.

- ① abandoned repair/reproducing approach
  - ② Patent is not exhausted in the following cases;
    - (i) the patented product has been reused or restored and used after the original sustainable period is expired
    - (ii) 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
- The Court found that defendant's products meet ②(ii) requirements.



## 4-4 Ink tank case (continued)

Supreme Court decision (Nov. 8, 2007)

- ▷ adopted repair / reproduction approach
- ▷ If the product of the alleged infringer can be **regarded as a novel production of the patented product** as a result of modification of patented product or replacement of its components, the patent holder is entitled to exercise the patent right.
- ▷ Factors to be considered;
  - ① characteristics of the patented product
  - ② content of the patented invention
  - ③ extent of modification/exchange of components
  - ④ circumstances involving the transaction



## 4-5 Ink tank case (continued)

- ▷ Regarding **international exhaustion**, requirements (agreement, indication on product) in BBS case is not applied to reproduced products. **Same criteria as domestic exhaustion should be applied.**
  - ▷ Use of ink cartridges are one-time only, and infringer made a hole in the cartridge, washed away dried ink, poured ink and closed the hole, by which essential part of the cartridge was restored.
  - ▷ Modification in this case is not merely a refilling of ink, but restores material value and function of the Invention which was once lost.
- patent is **not exhausted**.



## 5 Apple/Samsung case

IP High Court (Grand Panel) May 16, 2014

- ▷ If a patent holder assigns a product to be used exclusively for the production of a patented product, the patent holder is not allowed to exercise the patent right over the product as far as the product maintains the status quo.
  - ▷ However, when the third party manufactures the patented products by using the assigned product, the patent holder is allowed to exercise the patent right unless he or she authorizes the manufacturing.
  - ▷ This rule is applied to cases where the product is assigned outside Japan.
- exhaustion in case of indirect infringement

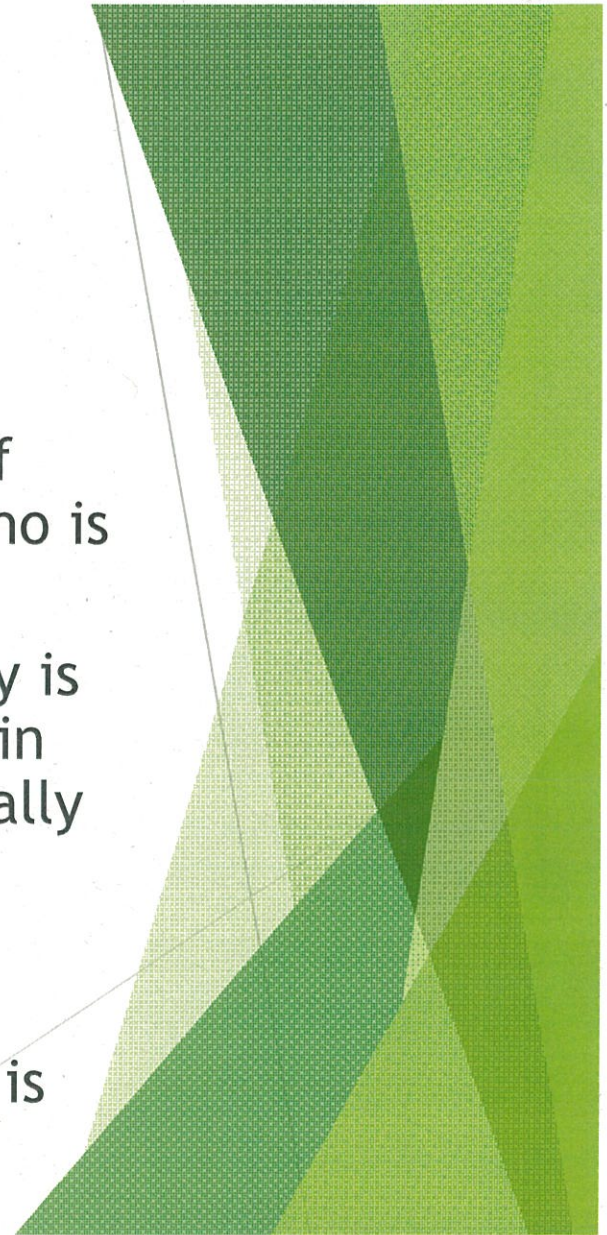


## 6 Trademark (Fred Perry case)

Supreme Court decision (Feb. 27, 2003)

parallel importation is not illegal, if

- (1) the trademark is applied to the goods by an owner of trademark right in a foreign country or by a person who is granted a license of the trademark
- (2) the owner of the trademark right in a foreign country is the same person as the owner of the trademark right in Japan or they can be regarded as legally or economically identical
- (3) because the owner of the trademark in Japan is in a position to conduct quality management of the goods directly or indirectly, with respect to the quality that is guaranteed by the registered trademark





# 7 Copyright

## Article 26-2 of the Copyright Act

(1) The author shall have the exclusive right to offer his work...to the public by transferring ownership of the original or reproductions of his work ...

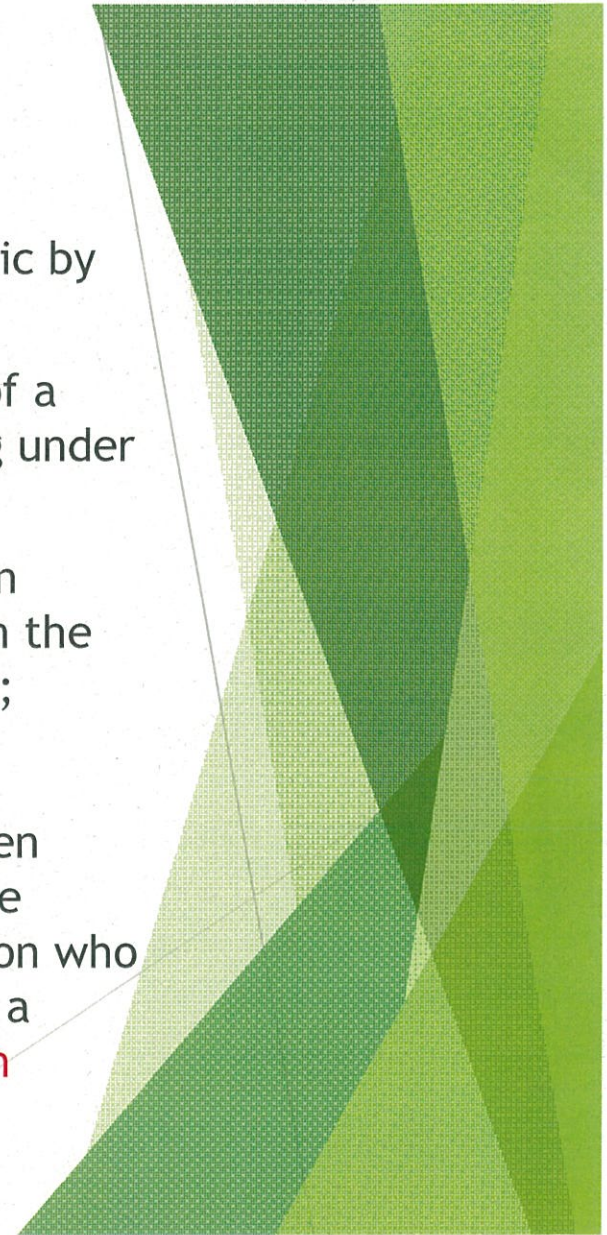
(2) The provisions of the preceding paragraph shall not apply in the case of a transfer of the ownership of the original or reproductions of a work falling under any of the following items:

(i) the original or reproductions of a work the ownership of which has been transferred to the public by a person who possesses the right prescribed in the preceding paragraph or by a person with authorization from such a person;

→ domestic exhaustion

(iv) the original or reproductions of a work the ownership of which has been transferred outside this country, (a) without prejudice to a right that is the equivalent to that prescribed in the preceding paragraph, or (b) by a person who has a right equivalent to that prescribed in the preceding paragraph or by a person with authorization from such a person. → international exhaustion

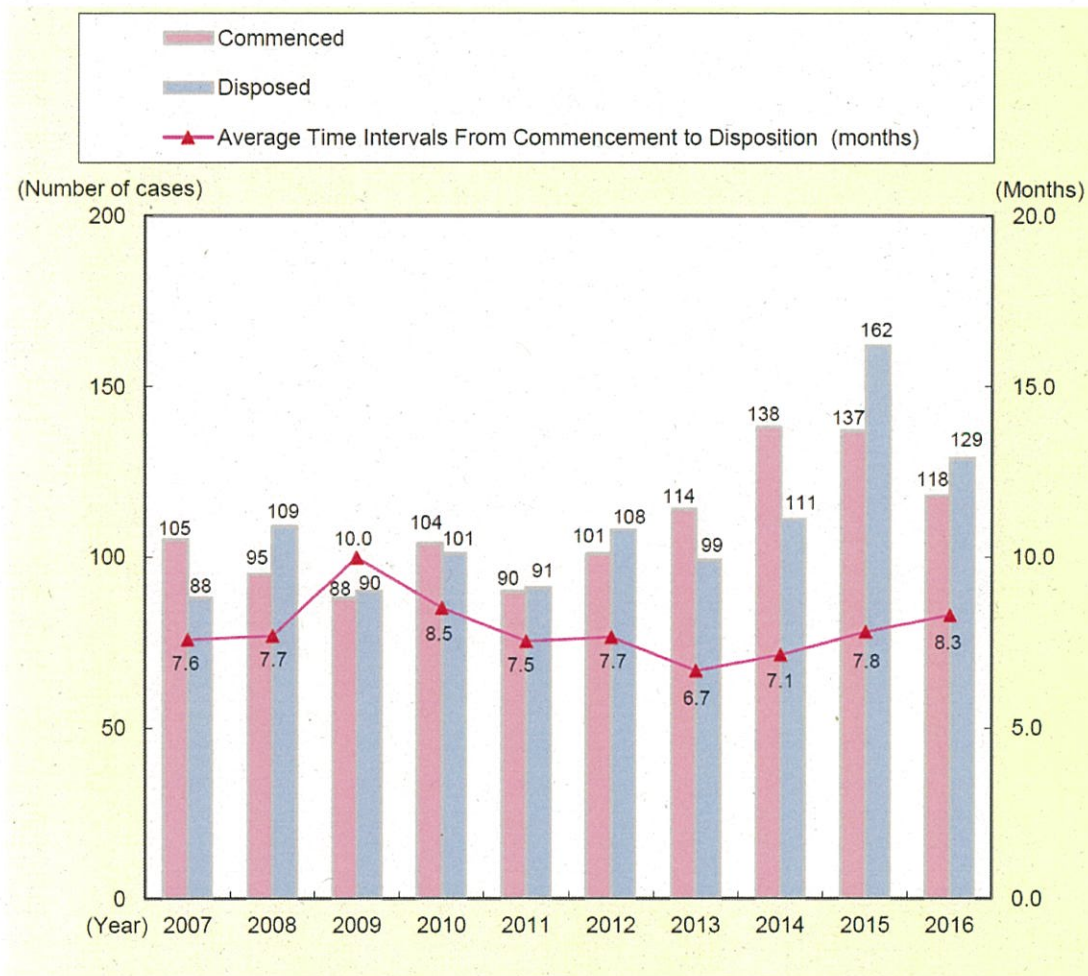
▷ Exception: cinematographic works, commercial phonogram





# 8-1 Statistics on IP High Court

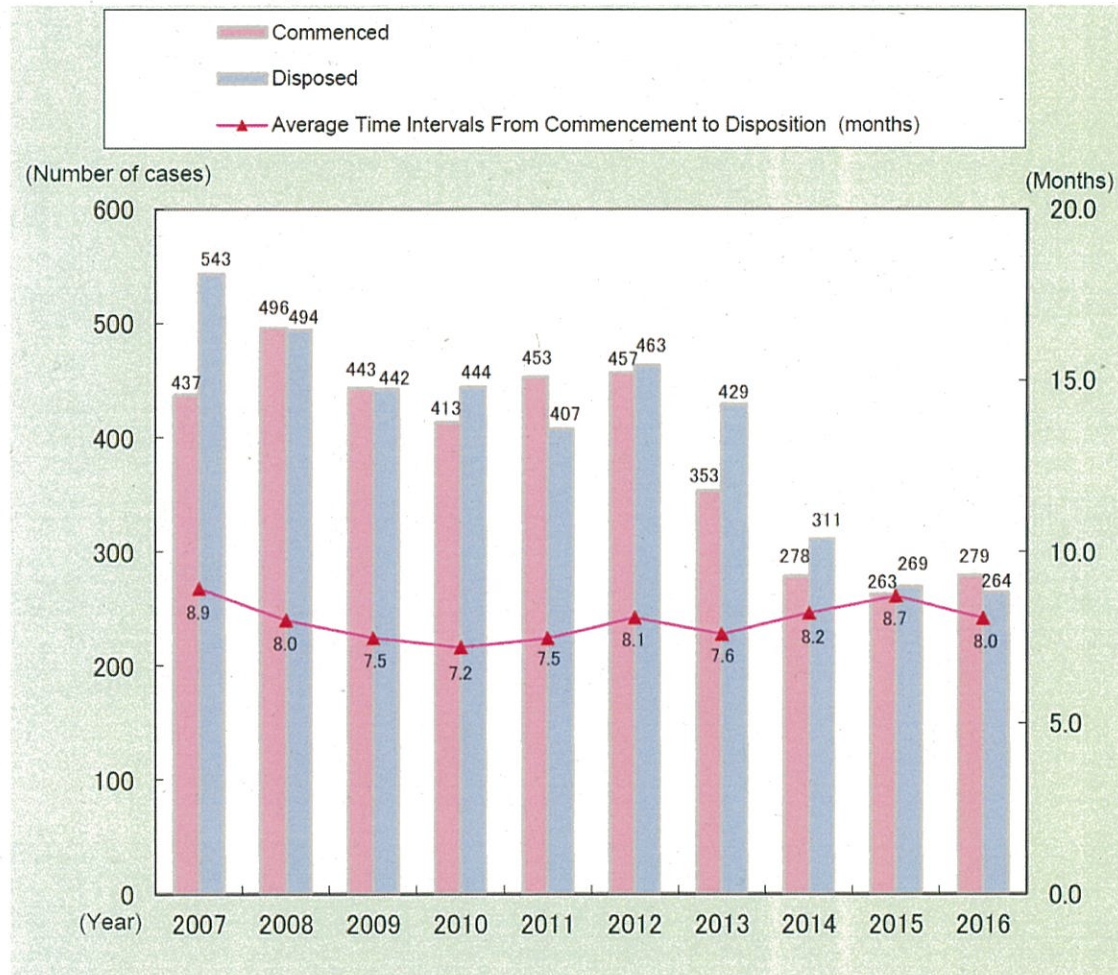
Intellectual Property Appeal case  
(IP High Court)





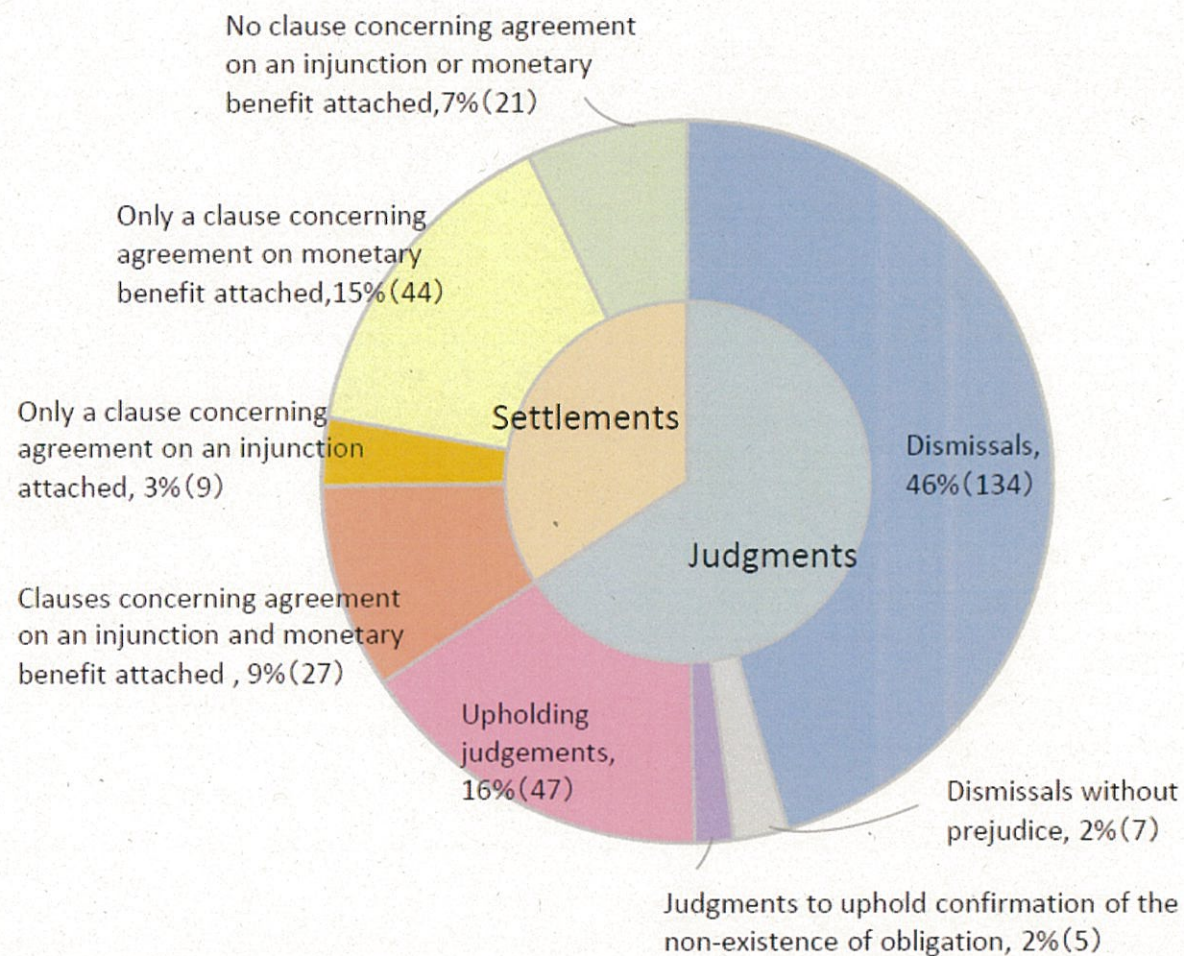
## 8-2 Statistics on IP High Court

### ► Suits against Appeal/Trial Decisions made by the JPO



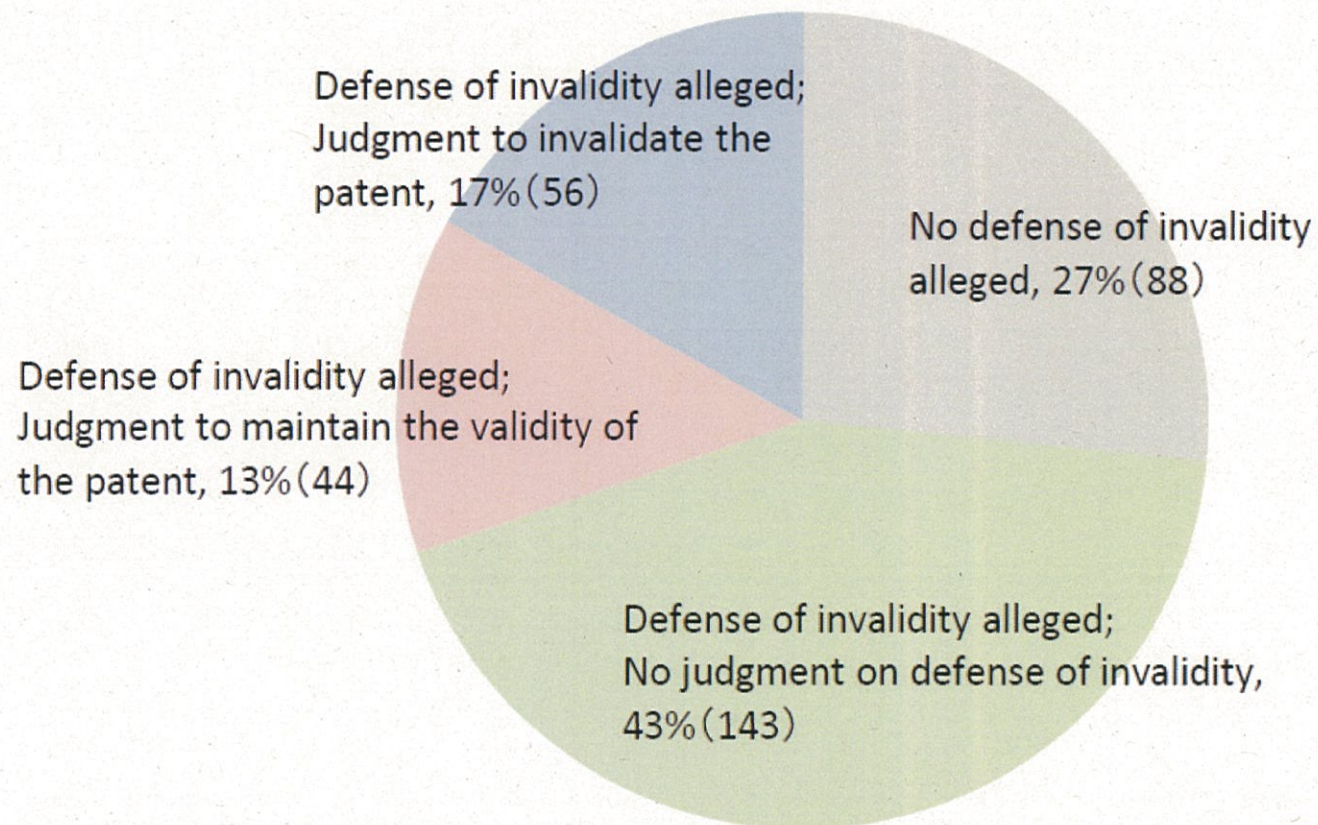


## 8-3 Statistics regarding patent infringement cases (Tokyo and Osaka District Court (2014-2018))





## 8-4 Statistics regarding patent infringement cases (Tokyo and Osaka District Court (2014-2018))

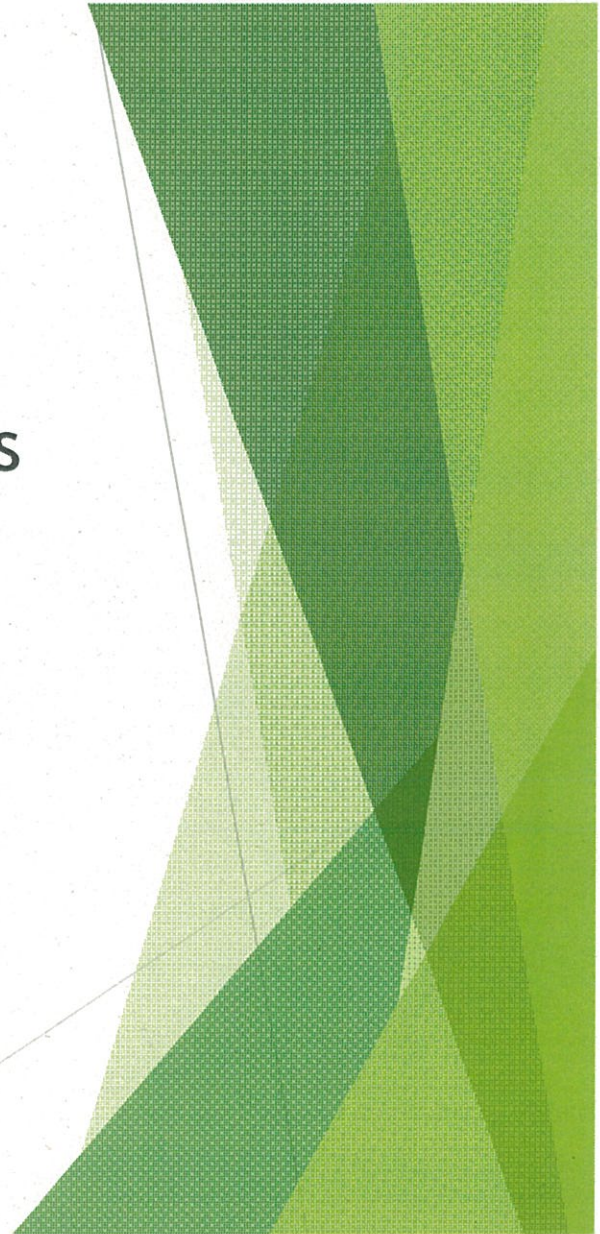




## References

English translation of the cases and statistics introduced above are available in IPHC website.

<http://www.ip.courts.go.jp>





► Thank you for your attention