

Nov. 9th 2017

Meeting with US Bar - JPO Liaison Council

Patent Exhaustion in Japan

~Compared to the “Lexmark Case”~

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Supreme Court Decisions



“BBS Case” decided on Jul. 1st 1997

http://www.courts.go.jp/app/hanrei_en/detail?id=314



“Ink Cartridge Case” decided on Nov. 8th 2007

http://www.courts.go.jp/app/hanrei_en/detail?id=917

Supreme Court Decisions



BBS Case

Assigned outside Japan

→ Exhaustion depends on agreement
and indication



Ink Cartridge
Case

Assigned in Japan

→ Exhausted

Even exhausted, if the patented product “repaired”...

→ Could be exercised over again

Contents

- 1, If assigned in Japan, exhausted ?
- 2, If assigned outside Japan, exhausted ?
- 3, If “repaired” after exhaustion, exercised over again?

1, If assigned in Japan, exhausted ?



If assigned in Japan, exhausted ?

Patent Act (No common law)

Japanese patent entitles a patentee to have the exclusive right to work the patented invention as a business. Art.68

Working of an invention means producing, using, assigning, etc., exporting or importing, or offering for assignment, etc. in the case of an invention of a product. Art.2, (3), (i)

A patentee may demand a person who infringes the patent right to stop or prevent such infringement. Art.100,(1)

No direct provision on exhaustion, but the domestic exhaustion doctrine had been deemed to be natural .

If assigned in Japan, exhausted ?

Old “Fan Machine Case”



Decided on Oct. 9th 1912 by ex-Supreme Court

In the case where another person acquires ownership of the patented product lawfully [...], the property shall leave the scope of the patentee's rights and the patentee shall not have the right to take any further action on its use afterwards.

Considering the effect of ownership, there is no doubt.

→ The appellant cannot bring a patent infringement suit.

If assigned in Japan, exhausted ?

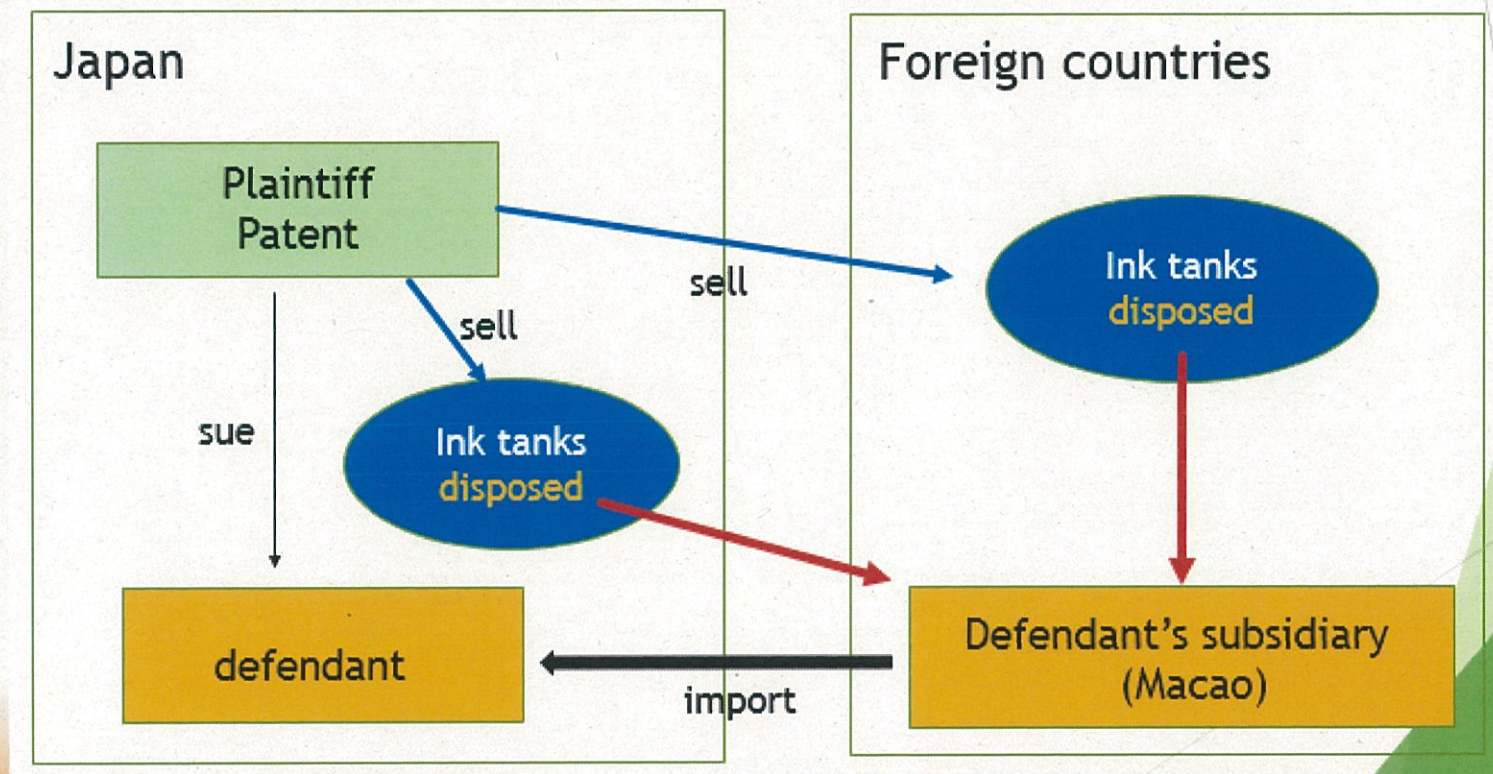
“Ink Cartridge Case”

“BBS Case” rendered in 1997 also referred to the exhaustion when the product was assigned in Japan, but it was “obiter dictum”.

“Ink Cartridge Case” rendered in 2007 is the first case to hold it as “ratio decidendi”.

If assigned in Japan, exhausted ?

“Ink Cartridge Case”



Cited from presentation material by Judge T. Sato

If assigned in Japan, exhausted ?

“Ink Cartridge Case”

Conclusion

“If the patent holder, or the licensee [...], assigned the patented product in Japan, **the patent regarding this patented product is exhausted**”



Since no exception is reserved, restraints on alienation will have no effect.

If assigned in Japan, exhausted ?

“Ink Cartridge Case”

Reason in theory

“since it has achieved its purpose and thus, the effect of the patent does not extend to the use, assignment etc. [...] of the patented product”



Not presumption that the patentee grants authority

Not the effect of ownership

If assigned in Japan, exhausted ?

“Ink Cartridge Case”

Reason in substance (1)

“ 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 ”



Smooth transaction

If assigned in Japan, exhausted ?

“Ink Cartridge Case”

Reason in substance (2)

“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”



Reward secured

If assigned in Japan, exhausted ?

Comparison

	Lexmark Case	Ink Cartridge Case
Conclusion	Exhausted without exception	Exhausted without exception
Reasons	Common law (Effect of ownership and Limit of monopoly?) Smooth transaction Reward secured	Achieving its purpose Smooth transaction Reward secured ⁴

If assigned in Japan, exhausted ?

Comparison

Old “Fan Machine Case” explained that the patentee’s rights are exhausted as an effect of ownership. “Lexmark Case” also mentioned “ownership”.



Reason of the old “Fan Machine Case” is criticized as having confused patent rights and ownership. Patent rights and ownership could be established in one product at the same time.

2, If assigned outside Japan, exhausted ?



If assigned outside Japan, exhausted ?

Patent Act

No direct provision on exhaustion

If assigned outside Japan, exhausted ?

cf.

Copyright Act

The author of a work does not have exclusive right to make that work available to the public through the transfer of the original work, in the case it is transferred abroad by the person that owns above right. ref. Art.26-2,(1),(2)(v) amended in 1999

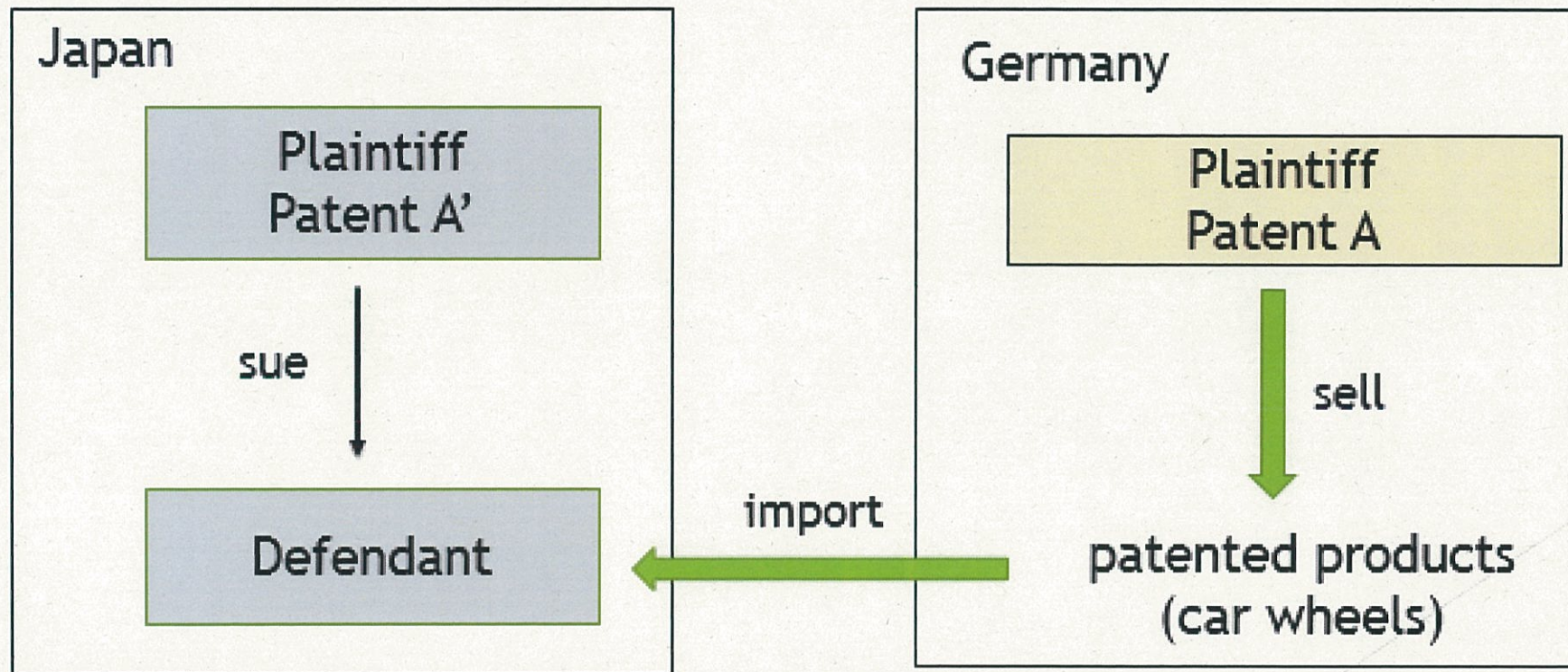
Trademark Act

No direct provision.

Supreme court did not say anything on exhaustion clearly but held that parallel importation is deemed not to be substantially illegal under several conditions because parallel importation of genuine goods that satisfies those conditions would not undermine a trademark's functions. ref. Fred Perry Case on 27 Feb 2003

If assigned outside Japan, exhausted ?

“BBS Case”



Cited from presentation material by Judge T. Sato

If assigned outside Japan, exhausted ?

“BBS Case”

Conclusion

“if a patent holder in Japan or an equivalent person assigns a patented product outside Japan to another person, the patent holder may **not seek an injunction** in Japan [...] against the assignee **unless there is an agreement** excluding Japan from the areas of sale or use of the said product, **neither do so** against the person who acquired the product from the assignee, except in cases where the above agreement has been made and is **explicitly indicated on the product.**”

If assigned outside Japan, exhausted ?

“BBS Case”

Conclusion (analyze)

Patent holder may not seek an injunction in Japan

Against assignee; unless there is an agreement excluding Japan from the areas of sale or use

Against the person who acquired the product; unless the above agreement has been made and is explicitly indicated on the product



In favor of restraints on alienation

If assigned outside Japan, exhausted ?

“BBS Case”

Reason (1)

“it is naturally expected that the products may be subsequently imported into Japan, if the patent holder assigned the patented products outside Japan without any reservation, it should be understood that the patent holder had implicitly granted the right to control the products to the assignee [...]”

If assigned outside Japan, exhausted ?

“BBS Case”

Reason (2)

“ the patent holder should be understood to be entitled to reserve the right of exercising his patent right in Japan at the time of the assignment of the patented products outside Japan ”

“expressly indicated this on the products, the person who had the products subsequently assigned [...], should be able to recognize that there was such a restraint on the product, and is capable of making a decision to purchase or not to purchase such products at his own will. ”

If assigned outside Japan, exhausted ?

“BBS Case”

Reason (3)

“The same shall apply in cases where the patented products were assigned outside Japan by subsidiaries or affiliated companies [...] ”

If assigned outside Japan, exhausted ?

“BBS Case”

Reason (4)

“ The necessity of protecting the reliance of the assignee of the patented products on free circulation of the products does not depend on whether or not the patent holder has a corresponding patent [...] ”

If assigned outside Japan, exhausted ?

“BBS Case”

Reason in theory (analyze)

The patent holder may reserve the right of exercising his patent right in Japan, because the patent right has not achieved its purpose at the time of the assignment of the patented products outside Japan.

However, assignment presumptively might be considered as granting authority for the purchaser to use it and resell it.

If assigned outside Japan, exhausted ?

“BBS Case”

Reason in substance (analyze)

“ Even if the patent holder has a corresponding patent, in the light of the fact that the patent in Japan and the patent in the country of the place of assignment are separate rights, [...] it **cannot be regarded as profiting twice from the same patent.**”



Patentee has not got the particular reward
Patentee may reserve the right

If assigned outside Japan, exhausted ?

“BBS Case”

Reason in substance (analyze)

“ In commercial transactions outside Japan, **generally, it is presupposed that the assignor transfers all the rights** on the object to the assignee and the assignee acquires all the rights the assignor had. [...] it is naturally expected that the assignee [...] imports the patented goods into Japan as business, [...].”



Smooth transaction including import is needed
Presumption that the patentee grants authority

If assigned outside Japan, exhausted ?

“BBS Case”

Reason in substance (analyze)

“the person who had the products subsequently assigned [...], should be able to recognize that there was such a restraint on the product, and **is capable of making a decision to purchase or not to purchase** such products at his own will. ”



Indication on the products is needed against the person who acquired the product.

If assigned in Japan, exhausted ?

Comparison

	Lexmark Case	BBS Case
Conclusion	Exhausted	Depends on agreement and indication
Reasons	First sale doctrine (no geographical distinction) Received one reward	Patentee grants authority presumptively No particular reward Smooth transaction ₃₀

If assigned in Japan, exhausted ?

Comparison

At the time of the assignment of the patented products outside the country registered, should the patentee be satisfied with the price he/she received ?

3, If “repaired” after exhaustion, exercised over again?



If “repaired” after exhaustion, exercised over again?

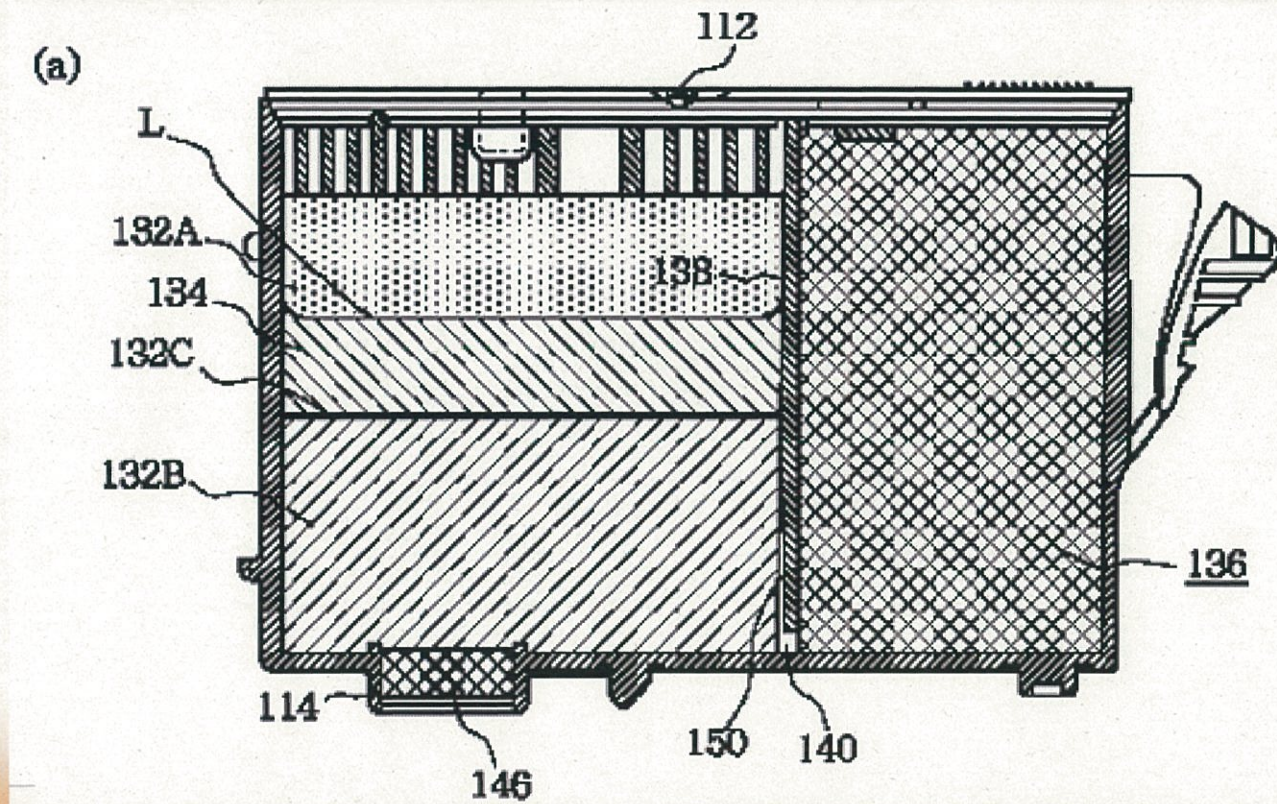
“Ink Cartridge Case”

“Ink Cartridge Case” was more focused on from the perspective of “repairing”.

Is it possible for the patentee to exercise their patent rights over the product again after the patented product has been “repaired” ?

If “repaired” after exhaustion, exercised over again?

“Ink Cartridge Case”



Cited from presentation material by Judge T. Sato

If “repaired” after exhaustion, exercised over again?

“Ink Cartridge Case”

Conclusion

“If the patented product, assigned in Japan 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. ”

Same conclusion if the patented product was assigned outside Japan.

If “repaired” after exhaustion, exercised over again?

“Ink Cartridge Case”

Reason

“ 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 “repaired” after exhaustion, exercised over again?

“Ink Cartridge Case”

Criterion

Whether the patented product is not identical to the first patented product after being modified or replacing its components ?

If “repaired” after exhaustion, exercised over again?

“Ink Cartridge Case”

Criterion

determined by taking into consideration (1) the characteristics of the patented product, (2) the content of the patented invention, (3) the manner of modification and the exchange of components as well as (4) the circumstances involving the transaction in a comprehensive way.

If “repaired” after exhaustion, exercised over again?

“Ink Cartridge Case”

Criterion

(1) the characteristics of the patented product



“the function, structure and materials, application, usable life, mode of use of the patented product, [...] should be taken into account. ”

If “repaired” after exhaustion, exercised over again?

“Ink Cartridge Case”

Criterion

(3) 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 replaced components within the patented product should be taken into account. ”

If “repaired” after exhaustion, exercised over again?

“Ink Cartridge Case”

Application

a modification of the ink cartridge itself
restoring the cartridge which ceased to have
components relevant to the essential part of the invention
all the circumstances including the state of trade of ink
cartridges



“patented products [...] have been newly produced”

If “repaired” after exhaustion, exercised over again?

Comparison

No issue point in “Lexmark Case”

“Jazz Photo corp. v. ITC” decided on 21 Aug. 2001 by CAFC pointed out “Indeed, this criterion is the common thread in precedent, requiring consideration of the remaining useful capacity of the article, and the nature and role of the replaced parts in achieving that useful capacity.”



Similar ?

Thank you