

Case number	2005 (Ne) 10021
Party	[Appellant-Plaintiff] Canon Inc. [Appellee-Defendant] Recycle Assist Co., Ltd.
Decided on	January 31, 2006
Division	Grand Panel

Holdings:

This is a case in which patent infringement is found and injunctive relief is granted against recycled products that are made by refilling with ink the patented ink tanks for inkjet printers after the initial ink is used up.

References:

Patent Law (Article 2(3), Article 68, and Article 100)

Reasons

I. Outline of the case

1. Facts found

(1) Canon Inc. (hereinafter "Canon") is the holder of Patent No. 3278410 entitled "liquid container, manufacturing method of the container, package of the container, ink jet head cartridge consisting of the container integrated with a recording head, and liquid jet recorder" (hereinafter the "Patent"). Canon manufactures and sells the ink tanks (hereinafter "Products of Canon") described in Claim 1 of the Patent (invention of liquid container; hereinafter "Invention 1") using the process described in Claim 10 of the Patent (invention of manufacturing process of the liquid container; hereinafter "Invention 10").

Recycle Assist Co., Ltd. (hereinafter "Recycle Assist") is engaged in importing and selling the ink tanks specified in the Attachment of the judgment (hereinafter "Products of Recycle Assist"). Company Z manufactured Products of Recycle Assist by refilling with ink used Products of Canon, which were sold in Japan or overseas by Canon or its licensee.

Canon brought this action based on Inventions 1 and 10 to seek injunctive relief in order to prevent Recycle Assist from importing and selling Products of Recycle Assist and force it to dispose of the products.

(2) Both parties admit that Products of Recycle Assist meet every constituent feature of Invention 1 and fall within the technical scope thereof, and the manufacturing process for Products of Recycle Assist also meets every constituent feature of Invention 10 and falls within the technical scope thereof.

Recycle Assist argues that Canon should not be allowed to exercise the Patent against Products of Recycle Assist, claiming “exhaustion” of the Patent in respect of Products of Recycle Assist made from Products of Canon sold in Japan (hereinafter “for domestic sale”), and citing the reasons for the Supreme Court judgment on the *BBS Case* (judgment of the Third Petty Bench of the Supreme Court of July 1, 1997, Minshu Vol. 51, No. 6, 2299) in respect of Products of Recycle Assist made from Products of Canon sold overseas (hereinafter “for overseas sale”). The cited holdings are as follows: if the holder of a Japanese patent or a party equivalent thereto has assigned the patented product outside Japan, the patent holder, with regard to the product, is not allowed to exercise his patent right to claim injunctive relief in Japan against the direct assignee, except where he agreed with the direct assignee that Japan be excluded from the areas of sale or use with regard to the product, or against any subsequent assignees, except where he made the same agreement with the subsequent assignees and clearly indicated it on the product.

In response, Canon argues that Canon should not be prevented from exercising the Patent against Products of Recycle Assist since the conduct of Products of Recycle Assist should be regarded, in light of the process of refilling with ink used Products of Canon, as “manufacture” of products that fall within the technical scope of Invention 1 and “use” of manufacturing process described in Claim 10.

2. Issues

(1) Whether Canon should be allowed to exercise the Patent for Invention 1 (invention of product) against Products of Recycle Assist that are manufactured

by refilling with ink Products of Canon for domestic sale.

(2) Whether Canon should be allowed to exercise the Patent for Invention 10 (invention of process) against Products of Recycle Assist that are manufactured by refilling with ink Products of Canon for domestic sale.

(3) Whether Canon should be allowed to exercise the Patent against Products of Recycle Assist that are manufactured by refilling with ink Products of Canon for overseas sale.

II. Holdings of the Court

1. Issue 1

(1) Exhaustion of a patent (invention of product)

Where the holder of a patent (product invention) or patent licensee has assigned the patented product in Japan, the patent, having fulfilled its purpose, has been exhausted, and the patent holder is no longer allowed to exercise the patent to seek injunctive relief against acts such as using, assigning or leasing the patented product.

However, the patent is not exhausted and the patent holder is allowed to exercise the patent when one of the following conditions is met: (i) the patented product is reused or recycled after it has finished its service along with the lapse of its ordinary life as a product (Type 1); (ii) a third party has made modification or replacement to the whole or part of the components that constitute an essential portion of the patented product (Type 2). Whether the Type 1 condition is met should be determined based on the patented product by examining whether the patented product has finished its service as a product, whereas whether the Type 2 condition is met should be determined based on the invention by examining whether any modification or replacement has been made to the whole or part of the components that constitute an essential portion of the patented invention.

(2) Type 1 condition

In this case, the Type 1 condition has not been met. Since no physical change or modification has been added to the components of the Products of Canon other than use of the filled ink, the Products of Canon can be reused as ink

containers by refilling them with ink. Ink is an interchangeable part, and refilling ink can be deemed to be replacement of an interchangeable part. In the market of ink products for ink jet printers, not only genuine products including Products of Canon but also recycled products and ink refills are available. Though quality of recycled products is often inferior to that of genuine products, they are widely accepted by users due to lower prices. Furthermore, recycling should be encouraged for the conservation of the environment unless it infringes upon another party's rights or interests. No laws or regulations prohibit the recycling of used ink tanks. Given these factors, the Court finds that the Products of Canon have not spent their life as a product even if the initial ink has been used up. The Court concludes that the Products of Canon do not meet the Type 1 condition.

(3) Type 2 condition

Type 2 condition is met in this case, and the Patent for Invention 1 has not been exhausted.

The purpose of Invention 1 is to solve the conventional problem of ink tanks, that is ink leakage at the time the ink cartridge is unsealed, while ensuring the same effect for the conventional ink tanks, which is stable ink supply, by increasing the quantity of ink contained in the ink tank per unit volume. In order to fulfill the above mentioned purposes, Invention 1 contains the following features; Constituent Feature H is a structure where the negative pressure generating member storage chamber stores two negative pressure generating members, and the capillary attraction at the interfaces of the two negative pressure generating members is larger than that of the respective member. Constituent Feature K is a structure where the ink tank contains sufficient liquid in a manner that the whole area of the interfaces retains the ink regardless of the posture of the ink tank. Due to those features, a barrier is formed at the interfaces of the negative pressure generating members to block air communication between the members. Those constituent features are essential parts of Invention 1. The Products of Canon lose Constituent Features H and K by the time a certain period of time has passed after the ink is used up and the ink tank is taken out of the printer. A third party produces Products of Recycle Assist by cleaning the inside of the ink tanks of used Products of Canon, which have lost their essential features by then, and injecting ink into them beyond the

level of the interfaces of the negative pressure generating members. Through this manufacturing process, the Products of Recycle Assist restore Constituent Features H and K of Invention 1. Therefore, the Type 2 condition is met and exhaustion of the Patent for Invention 1 should be denied. Canon should be allowed to exercise the Patent for Invention 1 against Products of Recycle Assist that are manufactured by refilling with ink used Products of Canon for domestic sale.

(4) Perspective of conservation of the environment (recycling theory)

Recycle Assist argues that it is inappropriate from the perspective of sound environmental policy to prohibit the import and sale of recycled products such as the Products of Recycle Assist, and that it is also inappropriate from the perspective of promoting international transactions and protecting consumer interest to allow Canon's exercise of the Patent because it would threaten the market for recycled products.

Since conservation of the environment is important for ensuring wholesome and cultured living for the current and future citizens and achieving human welfare, the fundamental philosophy of conservation of the environment must also be respected to the greatest possible extent in construing the provisions of the Patent Law. In this case, however, Canon calls on users of the Product of Canon for cooperation in collecting used Products of Canon, and actually collects a significant quantity of used products and reuses them as an energy source for manufacturing cement. Given these facts, it cannot be said that only Recycle Assist's conduct is consistent with the philosophy of conservation of the environment, whereas Canon's conduct to seek injunctive relief against the import and sale of Products of Recycle Assist, is inconsistent with that philosophy.

The above holdings do not mean that the manufacture or sale of recycled products must be prohibited in any case. No infringement should be found for the manufacture or sale of recycled products as long as the genuine products are not patented or the patent has been exhausted.

(5) Canon's business model (unfair profits from the sale of genuine products)

Recycle Assist, criticizing Canon's business model (i.e. selling the printer at a low price and driving the printer users to buy the genuine ink tanks at a high price, thereby making unfair profits), argues that Canon's exercise of the Patent would harm consumer interest and afford excessive protection to the patent holder.

However, there is no evidence that shows Canon's business model is as argued by Recycle Assist. In addition, as compensation for the disclosure of an industrially applicable invention to the public, the patent holder is given the exclusive right to exploit the patented invention for making profit, and the patent holder has discretion to set the prices of the patented products and other related products unless there are special circumstances where such pricing is against public interest or public order under the Antimonopoly Law, etc.

If it is assumed, as argued by Recycle Assist, that Canon sets the price of the genuine products at a level significantly higher than the manufacturing cost and gains excessive profits from the sale of the genuine products, it follows that Recycle Assist also gains excessive profits considering such factors as the price gap between the genuine products and the recycled products (the retail price per unit is 800 to 1,000 yen for the genuine product and 600 to 700 yen for the recycled product) and costs incurred by Canon and Recycle Assist respectively (Recycle Assist incurs expenses for manufacturing and transporting the recycled products but has avoided R&D costs for the patented invention and manufacturing costs for the ink tank). Therefore, it is unreasonable for Recycle Assist to argue that Canon's exercise of the Patent rights should not be allowed for the benefit of consumers.

2. Issue 2

(1) Exhaustion of processing patent

The exercising of a process patent falls into two categories: use or assignment of the product manufactured using the claimed process (hereinafter the "resulting product"), and the use of the process itself. The issue of exhaustion should be discussed separately for each respective category.

In case of the use and assignment of the resulting product, the exhaustion doctrine for a product patent is applicable. The patent is not exhausted and the

patent holder is allowed to exercise the patent where one of the following conditions is met: (i) the resulting product is reused or recycled after it has finished its service along with the lapse of its ordinary life as a product (Type 1); (ii) a third party has made modification or replacement to the whole or part of the components that constitute an essential portion of the patented invention involved in the resulting product (Type 2).

Although the exhaustion doctrine for a product patent does not apply as it is to the use of the patented process, the patent holder should not be allowed to exercise the patent where one of the following conditions is met: (i) the product manufactured by the patented process is also patented as a product invention, with no difference in technical ideas between the process invention and the product invention, and the patent for the product invention has been exhausted, or (ii) the patent holder or patent licensee has assigned articles that are to be used exclusively for the patented process or used for the patented process (excluding those generally available in Japan) and that are indispensable for solving the problem through the patented invention, and the direct assignee or any subsequent assignee uses the patented process using the assigned articles, or uses or assigns products manufactured by the patented process using the assigned articles.

(2) Whether the exercise of the Patent should be allowed

Invention 10 is a process invention for manufacturing the liquid container described in Claim 1, and there is no difference in technical ideas between Inventions 1 and 10.

Invention 10 includes Constituent Features H' and K'. Constituent Feature H' is a process whereby a liquid container has a negative pressure generating member storage chamber that stores two negative pressure generating members and the capillary attraction of the interfaces of the members is higher than that of the members. Constituent Feature K' is the process of injecting ink into ink tanks in such a manner that the whole area of the interfaces retains the ink regardless of the posture of the ink tank. Those features are essential for Invention 10, and the function of those features can be seen in the equivalent

members of the Products of Canon. Since the Products of Recycle Assist are manufactured through the process mentioned in 1(3) above, it can be said that the essential members are modified or replaced. Therefore, Canon is allowed to exercise the Patent for Invention 10 against Products of Recycle Assist that are manufactured by refilling with ink used Products of Canon for domestic sale.

Regarding the use of the patented process, the conduct of Recycle Assist falls within neither (1)C(i) nor (ii) mentioned above. Therefore, Canon is allowed to exercise the Patent for Invention 10 against the Products of Recycle Assist.

3. Issue 3

(1) Product Patent

If the holder of a Japanese patent or a party equivalent thereto assigns the patented product outside Japan, the patent holder, with regard to the product, is not allowed to exercise his patent rights against the direct assignee except in cases where he has agreed with the direct assignee that Japan be excluded from the areas of sale or use with regard to the product, or against any subsequent assignee except in cases where he has made the same agreement with the subsequent assignee and clearly indicated this on the product, by reason of the act of importing the product into Japan or using or assigning it in Japan. However, the patent is not exhausted and the patent holder is allowed to exercise the patent when one of the following conditions is met: (i) the patented product is reused or recycled after it has finished its service along with the lapse of its ordinary life as a product (Type 1); (ii) a third party has made modification or replacement to the whole or part of the components that constitute an essential portion of the patented invention involved in the patented product (Type 2).

Regarding the Products of Recycle Assist sold overseas, the same reason as mentioned in 1 is applicable. The Type 1 condition is not met, but the Type 2 condition is met. Consequently, Canon is allowed to exercise the Patent for Invention 1 against Products of Recycle Assist that are manufactured by refilling with ink used Products of Canon for overseas sale.

(2) Process Patent

For the same reason as mentioned in 2 above, Canon is allowed to exercise the Patent for Invention 10 against Products of Recycle Assist that are manufactured by refilling with ink used Products of Canon for overseas sale.

4. Conclusion

For the reasons mentioned above, Canon's claims are well-grounded. Therefore, the judgment of the first instance is reversed and injunctive relief is granted.