

Japan's IP High Court: A Proactive Judiciary

With the introduction of Japan's IP High Court, there are now more opportunities to have important IP-related cases presided over by a specific IP court. As recent judgements have shown, the new court is already making good progress in resolving some of Japan's most interesting and important IP cases.



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High Court was established, Grand Panels at the High Court level were only formed in anti-trust matters and certain serious criminal matters such as treason. The introduction of the Grand Panel system, along with the fact that there have been three important decisions of the Grand Panel (Ichitaro case, parameter case and ink cartridge case) in the year since its establishment, further demonstrates the intention of the IP High Court to respond to these demands and the expectations of Japanese industry.

The recent Grand Panel opinion in the ink cartridge case is interesting when, in considering how the Grand Panel proactively formulated standards and principles to be applied with respect to the recycling of patented products, with a view to increased foreseeability.

More than one year has passed since Japan's Intellectual Property High Court (IP High Court) was established on April 1 2005. The establishment of the IP High Court was one of a number of significant policies of the Koizumi Cabinet, which recognizes the importance of a knowledge-based economy to rebuild the Japanese economy.

Considering the important role of the courts in the protection of IP rights, the IP High Court was established to specialize in trying IP cases in order to expedite and enhance IP-related court proceedings. As a branch of the Tokyo High Court, the IP High Court is charged with the responsibility of handling IP proceedings, to which the Tokyo High Court has exclusive jurisdiction (i.e., proceedings relating to patents, utility models rights, circuit layout rights and programme copyrights).

The grand panel system

Panels in the High Court are usually composed of three judges; however, the IP High Court can now convene a panel that consists of five judges, known as the Grand Panel.

This system was introduced in response to strong demands from Japanese industry for consistent rulings and enhanced foreseeability of court decisions, without waiting for a Supreme Court ruling with respect to cases handled exclusively by the IP High Court. Therefore, the Grand Panel is expected to be formed in instances where uniform interpretation of IP law is required for any case that might substantially affect IP practice. Before the IP

Ink cartridge case

The facts

The plaintiff in this case was a manufacturer of ink cartridges for inkjet printers (the Manufacturer), which were covered by the Manufacturer's product and process patents. The defendant, a recycler of ink cartridges (the Recycler), collected used, empty ink cartridges produced by the Manufacturer, cleaned and refilled them with ink, before marketing and selling them as recycled ink cartridges.

The issues

The main issues in this case were with respect to:

- (i) the recycled product and domestic patent exhaustion;
- (ii) the process patent and patent exhaustion, and
- (iii) the recycled product and international patent exhaustion (as some of the products recycled by the Recycler were originally sold overseas by the Manufacturer).

Grand panel findings

The Grand Panel overturned the lower court decision in this case and held that recycling products constituted patent infringement and concluded that, while the patent right with respect to a product is exhausted once the patentee sells such a product (patent exhaustion), there are two exceptions to this exhaustion principle, and in this case the second exception was applicable such that the Manufacturer was able to exercise its patent rights against the Recycler.

Recycled products and domestic patent exhaustion

(i) Patent exhaustion principle

The patent exhaustion principle is recognized in Japan because the transferee of a patented product from the patentee expects to be able to freely exploit the patented product. If authorization of the patentee is required for any such exploitation, the free flow of goods will be hindered and such hindrance is against public policy. It is also recognized that a patentee acquires consideration for the disclosure of its patented invention at the time of the first disposal and, therefore, the patentee will not sustain any damage even if it is not allowed to exercise its patents with respect to the products it has already sold (policy of double consideration).

The Grand Panel, after affirming the general rule of patent exhaustion, further recognized that there were two exceptions to this rule. In this case, the IP High Court ruled that the second exception applied, while the first exception did not.

The Grand Panel could have reached the same conclusion without referring to the first exception (as it was not applicable); however, it deliberately included it in its decision, thereby demonstrating the intention of the IP High Court to proactively provide comprehensive general principles with respect to a determination of patent infringement of recycling activities of patented products.

(ii) Exceptions to patent exhaustion

The Grand Panel held in this case that a patentee could exercise its patent rights under exceptions to the patent exhaustion rule. The exceptions articulated by the Grand Panel apply when:

- (i) products are recycled after the expiry of the usual period of utility for that product (Exception 1); or
- (ii) whole or part of a physical component that constitutes an essential part of the patented invention is altered or replaced (Exception 2).

These exceptions are consistent with the rationales behind the rule of patent exhaustion. In the case of Exception 1, the free flow of goods is not hindered, even if use or disposal of the patented product is restricted, as such use or disposal is not contemplated after expiry of the usual period of utility and the patentee is not considered to obtain double consideration, even if the patentee is allowed to exercise its patent right, as the patentee does not receive consideration for the use or disposal of the patented products after the expiry of its utility period at the time of the patentee's initial disposal, as such use or disposal was not contemplated at that time.

In the case of Exception 2, similar to Exception 1, the free flow of goods is not hindered, even if the patentee is allowed to exercise

its patent right. This is because once an essential part of the patented product is altered or replaced, such altered product is no longer the same product as was originally disposed. Again, for the same reason, the patentee is not considered to obtain double consideration, even if the patentee is allowed to exercise its patent right, as the patentee has not received consideration for the use or disposal of the new patented product.

In this case, the Grand Panel held that ink in the ink cartridge is a mere consumable and as the Recycler simply refilled the product with such consumable, the period of usual utility is not considered to have expired at the time the ink runs out (i.e. Exception 1 was not applicable). However, the Grand Panel found that cleaning and refilling the ink cartridge revived an essential part of the invention (a structure within the ink cartridge that prevented spillage) that was lost at the time the ink cartridge became empty, and therefore Exception 2 was applicable.

The comments of the Grand Panel with respect to the application of Exception 1, in particular, are merely *obiter dicta* and have been criticized for the ambiguity in determining when the utility period has expired. However, the observations of the Grand Panel in this regard still provide some meaningful and practical guidance, such as that the patentee may not unilaterally set a utility period by affixing labels indicating shelf life on a product.

The process patent and patent exhaustion

The Manufacturer in this case also had a process patent with respect to the ink cartridge and this represented a first-time opportunity for the IP High Court to give a detailed ruling with respect to process patents and patent exhaustion.

In its ruling, the Grand Panel held that the owner of a process patent with respect to a manufacturing process is not permitted to exercise its process patent if:

- (i) its product patent and process patent do not contain different technical ideas (such as the case where the same invention is reduced into both a product patent and a manufacturing process patent) and the product patent is exhausted; or
- (ii) the patentee sells a product which can only be used in connection with the patented process or a product which is indispensable to the resolution of the problem addressed by the patented process.

In the latter case, the patentee is also prevented from exercising its process patent with respect to the products that are produced through a patented process.

In this case, the Manufacturer was not restricted from exercising its patent rights with respect to the process as neither of the situations outlined above were applicable.

Recycled products and international patent exhaustion

In general, under Japanese law, a patentee cannot exercise its patent rights against the importation into, use, or disposal of products in Japan if such patentee disposed of those patented products overseas, with some exceptions.

The IP High Court confirmed the principle that the patentee should be allowed to exercise its patents rights if either of the two exceptions in the context of domestic patent exhaustion is applicable. The reasoning behind this decision is that, similar to domestic exhaustion, allowing a patentee to exercise its patent right will be consistent with public policy to protect the free flow of goods and it will not allow exploitation of double consideration by the patentee, based on the rationale laid out by the IP High Court in

connection with the domestic exhaustion principle.

Impact in practice

The Ink Cartridge case drew much public attention, as the decision of the Grand Panel to support the Manufacturer's rights and reject the Recycler's claim came at a time when emphasis and importance were placed on the protection of the environment and recycling. In spite of a number of remaining issues following the decision, including whether the standard laid out by the Grand Panel is appropriate and how that standard should be applied, the importance of this court opinion cannot be underestimated. Prior to this decision, the lower courts had provided inconsistent reasoning on the issue of whether or not alterations to patented products, once sold by the patentee, amounted to an infringement. This IP High Court ruling provides a comprehensive principle, extending to international patent exhaustion and process patent related issues, that removes these former inconsistencies.

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Expectations of the IP High Court

While the Grand Panel opinion does not have any precedent value with respect to other subsequent high court decisions, the fact that the Grand Panel was introduced in order to establish reliable and consistent rules without waiting for a decision of the Supreme Court and that, in practice, the Grand Panel consists of judges from each division within the IP High Court who are expected to represent each division's opinion, the IP High Court Grand Panel will, from a practical standpoint, offer precedent value in the sense that subsequent IP High Court opinions are likely to be consistent with the Grand Panel opinion.

In that sense, opinions of the Grand Panel could have substantial influence on the practice of IP law. Considering the relatively small number of judicial precedents in Japan, the fact that the IP High Court proactively provides guidelines on the interpretation of the law, even when only included as *obiter dicta*, is likely to have a powerful impact. In fact, numerous discussions are currently underway regarding the ongoing operation of the Grand Panel of

the IP High Court, especially with respect to:

- (i) what cases the IP High Court should handle;
- (ii) to what extent the IP High Court should provide guidance, even when such guidance is not necessary to reach a conclusion, and
- (iii) whether or not an *amicus* brief system, such as that in the United States, should be introduced.

It is expected that the IP High Court will be further refined as a result of these discussions and the IP High Court's efforts to improve its operations to enhance trust in, and stability and foreseeability of, the judicial system with respect to IP law.

About the author

Yoshimi Ohara was admitted to the bar in 1992. Prior to that, she obtained her LL.B at the University of Tokyo in 1990. In 1996, Ohara received her LL.M. from Harvard Law School. She is an experienced IP lawyer, having been in both private practice and worked as a corporate lawyer. She speaks Japanese and English.

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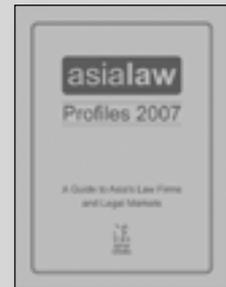
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