

Patent Infringement Case Study (4)

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Chapter 1: Literal Infringement

Section 1: Claim Construction

In order to determine whether there is an infringement or not, it is necessary to first compare the asserted patent claims and an allegedly infringing product or method. It is very important to base the analysis on the claims. Definitions of some terms used in the claims may be found in the body of the specification. The claims in and of themselves may not be clear, and it may be necessary to refer to the text of the patent. However, each and every word in the patent claims always forms the primary basis for determining the scope of exclusivity provided under the patent and judging the existence of infringement. It is not normally permitted to interpret the claims as narrow as specific embodiments disclosed in the specification nor to interpret the claims overly broad beyond claim language unless we have good reasons to do so.

Article 70 of the Patent Act provides that the technical scope of a patented invention "shall be determined on the basis of the statements of the patent claim(s) in the specification," and the meaning of a term or terms found in the patent claim(s) is interpreted in the light of the body of the specification and the drawings.

[Case No. 1] Pravastatin Sodium Case (product-by-process claims)

There are several aspects to claim interpretation and infringement in general. They will be discussed in the following.

Section 2: Direct and Indirect Infringements

If a product in question contains, as mentioned above, all the features and limitations recited in a patent claim or if it is considered to be an infringement under the doctrine of equivalents, it would constitute a direct infringement. The same is true for patented claims directed to methods. If the allegedly infringing product does not contain some portion of the elements or features found in a claim, no direct infringement should be found with respect to that claim.

If a third party produces a kit which contains all the elements that form the claimed product and a consumer purchases and assembles it at home, neither the sale of such kit nor assembly would constitute direct infringement, because the kit would lack some features or elements that tie the claimed structural elements together, while the assembly cannot be considered to have been done "as a business" as required in Article 68¹ of the Patent Act because it is done privately or for no business purposes. This is also true if

¹ Article 68 of the Patent Act reads as follows: "A patentee shall have the exclusive right to work the patented invention as a business; provided, however, that where an exclusive license regarding the patent right is granted to a licensee, this shall not apply to the extent that the exclusive licensee is licensed to exclusively work the patented invention."

an unauthorized person is selling an essential component of the claimed product by omitting a few trivial elements or features recited in a patent claim.

Such acts cannot be overlooked from the standpoint of meaningful patent protection. Therefore, the Patent Act contains some provisions that regard such acts as another form of infringement, so-called "indirect infringement," thus giving the same protection as against a direct infringement. In some other countries, similar types of infringement are called "contributory infringement" and dealt with somewhat differently from the Japanese-style indirect infringement.

Section 3: Limitations of Patent Rights

We do have to limit the power of patents in certain cases in order to strike a balance between the patentee and a party affected by the patent. We would like to discuss the following four principles: prior user right, experimental use exemption, compulsory license, and exhaustion. These are very important concepts in the patent law.

1. Prior User Right

The date on which a product or a method began to be made or used or substantial preparation for the product or method was made becomes a key in evaluating prior user right. For example, if the product had already been made or significant preparation for the production had been started as of the filing date of the patent in question, a so-called "prior user right" may be available as defense against the allegation of patent infringement.² Under the prior user right, it is possible to continue to make, use or sell the product or use the method without any liability associated with patent infringement. Also, a patent cannot cover products that existed before the effective filing date or those merely passing through Japan in transit (Article 69(2) of the Patent Act, as well as Article 5ter, Paris Convention).

2. Experimental Use Exception

Under Article 69(1)³ of the Patent Act, acts done for experimental or research purposes

² Article 79 of the Patent Act, provides for what is more commonly known as prior user rights in terms of a non-exclusive license. Article 79 reads as follows: "Where, at the time of filing of a patent application, a person who has made an invention by himself without knowledge of the contents of an invention claimed in the patent application or has learned the invention from a person just referred to, has been commercially working the invention in Japan or has been making preparations therefor, such person shall have a non-exclusive license on the patent right under the patent application. Such license shall be limited to the invention which is being worked or for which preparations for working are being made and to that purpose of such working or the preparations therefor.

³ Article 69 of the Patent Act reads as follows: "(1) A patent right shall not be effective against the working of the patented invention for experimental or research purposes.

(2) A patent right shall not be effective against the following products:

(i) vessels or aircrafts merely passing through Japan, or machines, apparatus, equipment or other products used therefor; and

are excluded from the patent protection. If a product is made or a method is used for purely scientific test purposes, no patent infringement liabilities occur. The purpose of Article 69(1) is to promote scientific or technological developments. Therefore, experimental manufacturing and sale for testing the market is not exempted. What is certain is that if testing is carried out to see if a patented invention really works, such testing would fall under the experimental use exception and does not infringe the patent. On the other hand, if a patented invention is used to see if it is in fact commercially viable, such testing, most probably, does not fall under the experimental use exception of Article 69(1).

A big issue is whether or not carrying out experiments for the sole purpose of obtaining governmental approvals for marketing generic drugs may be exempted under Article 69(1). On April 16, 1999, the Supreme Court handed down a decision concerning the question of experimental use exemption in favor of generic drug manufacturers. The Court found that tests carried out during the patent term in an attempt to obtain governmental approvals for manufacture and sales after the expiration of patents do not constitute patent infringement under Article 69(1) of the Patent Act. This decision is apparently in line with the comparative decisions issued by the German Supreme Court around the same time, although factual situations are not entirely the same between the Japanese and German cases.

[Case No. 2] Experimental Use Exception (testing for marketing generic drugs)

Prior to the Supreme Court decision, the Tokyo District Court rendered three decisions on July 18, 1997 in actions brought by Otsuka Pharmaceutical Co., Ltd. against several generic drug makers. In those decisions, the 29th civil division of the Court found no patent infringement for experiments done by generic drug makers during the patent term. This was a complete reversal of earlier decisions made by various courts. For example, in the Synthelabo case, the Nagoya District Court had found patent infringement because the experimental use exemption (Article 69 of the Patent Act) was not applicable to the experiments which were done for the sole purpose of obtaining governmental approval for future sale of old patented drugs and which did not lead to scientific advances. The Kanazawa branch of the Nagoya High Court and the Osaka District Court have also followed the line of reasoning set out in the Synthelabo cases. Thus, two lines of contradicting reasoning existed in Japan, and the above Supreme Court decision put an end to the confusion.

Also, in this connection, preparation of drugs under prescriptions given by medical

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- (ii) products existing in Japan prior to the filing of the patent application.
- (3) A patent right for the invention of a medicine (refers to a product used for the diagnosis, therapy, treatment or prevention of human diseases, hereinafter the same shall apply in this paragraph) to be manufactured by mixing two or more medicines or for the invention of a process to manufacture a medicine by mixing two or more medicines shall not be effective against the act of preparation of a medicine as is written in a prescription from a physician or a dentist and the medicine prepared as is written in a prescription from a physician or a dentist."

doctors would not constitute a patent infringement as provided in Article 69(2) of the Patent Act.

3. Compulsory Licenses

The Patent Act allows the granting of compulsory licenses for implementing dependent, i.e., related, inventions.⁴ It also provides for compulsory licenses for the use of inventions that have not been used for an extended period of time⁵ as well as for the interest of the general public.⁶

When a patented invention is implemented, such use may result in the use of another patented invention which has a prior filing date and is owned by another party. This type of situation occurs when a patent is granted on an improvement over another patented invention with an earlier filing date. The later-filed invention is called a dependent invention. The implementation of the dependent invention would constitute an infringement on the basic patent. In order to use the dependent invention the patentee has to obtain a license on the basic patent. When such license is not available, however, the dependent invention cannot be utilized,⁷ possibly impeding further development of technology and industry. Therefore, the Patent Act provides procedures for requesting and granting compulsory licenses on the basic invention by going through a prescribed arbitration process.

The Patent Act also provides for similar licenses when a patented invention has not been utilized over an extended period of time, so as to encourage patentees to put their patented inventions in use. Compulsory licenses may also be granted when it is clear that the public will enjoy large benefits if an unused patented invention is implemented, in the case of, for example, a new drug for a disease for which no medicinal cure was previously known.

Several applications have been filed to initiate the arbitration process; however, no compulsory licenses of any kind have been granted thus far. Also, under one of the two bilateral agreements between Japan and the U.S. respectively concluded in January and August 1994, it has now become practically impossible to obtain a compulsory license to use a patented dependent invention if a basic patent exists.⁸

4. Exhaustion

No statutory provisions in the Patent Act define or codify the doctrine of patent exhaustion. However, this doctrine plays a very important role in patent infringement

⁴ Article 92, Patent Act.

⁵ Article 83, Patent Act.

⁶ Article 93, Patent Act.

⁷ Article 72, Patent Act.

⁸ The August 1994 agreement stipulates that: "Other than to remedy a practice determined after judicial or administrative process to be anti-competitive or to permit public non-commercial use, after July 1995, the JPO is not to render an arbitration decision ordering a dependent patent compulsory license to be granted."

litigation. After a product covered by a patent has been sold by the patent owner or by others with the authorization of the patent owner, patent rights are said to have exhausted. The patent owner can no longer enforce his patent against third parties. This limitation is also referred to as the "exhaustion doctrine" or "first sale doctrine". For example, assume that you obtained a patent on a new type of machinery, you can legally prohibit others from making, selling and using a machine that is covered by the patent, but cannot prohibit a customer who has bought such machine from you from reselling it to third parties. The applicability of this doctrine is broadly recognized at least within the context of the domestic market, but there are on-going controversies as to what extent the sale of a patented product abroad can exhaust the patent over this product in the context of domestic law. This is the question of "international exhaustion".

[Case No. 3] BBS Automobile Wheels Case

[Case No. 4] Canon Ink Tank Case

Chapter 2: Doctrine of Equivalents

The doctrine of equivalents gives the patentee a broader interpretation of claims based on the understanding that if no exceptions are provided beyond the literal interpretation of the patented claims, it is often very difficult to provide adequate patent protection. In Japan, the Supreme Court has approved the doctrine and provided a set of clear criteria for its application, following a number of lower court decisions that attempted to recognize and establish the doctrine.

Initially, the Tokyo and Osaka High Courts expressed affirmative views on the doctrine.⁹ Further, on February 24, 1998, in an appeal filed by the accused infringer in the so-called ball spline bearing case, the Supreme Court redefined the doctrine of equivalents. The Supreme Court stated that for the doctrine to be applicable the following five criteria have to be considered:

Even if there exists a portion in the patent claim that is different from the alleged infringing product, an infringement may be found provided:

- 1) the differing element is not an essential part of the patented invention;
- 2) the same function and results are still obtained serving the same purpose as that of the patented invention even if that element is replaced by the corresponding element found in the allegedly infringing product;
- 3) the above replacement would have been easily conceived by a person skilled in the art with reference to the time of manufacture of the infringing product;
- 4) the infringing product is not the same as the art publicly known at the time of filing for the disputed patent and it could not have been easily

⁹ THK v. Tsubakimoto (concerning a ball spline bearing), Tokyo High Court, February 1994; and Genentech v. Sumitomo Pharmaceuticals (concerning human tissue plasminogen activator (t-PA)), Osaka High Court, March 1996.

conceived by a person skilled in the art at the time of filing for the patent based on such publicly known art; and

5) no special circumstances exist such as the intentional exclusion of the infringing product from the scope of the patented claim during the prosecution of the patent application for the patented invention.

The Supreme Court pointed out that the Tokyo High Court failed to consider condition 4 above and remanded the case back to the original court. The case was subsequently settled. In addition to the first three conditions, the Supreme Court included the last two conditions, which are traditionally considered as defense arguments, as essential part for the correct application of the doctrine.

[Case No. 5] Ball Spline Bearing Case

Also, the equivalent is determined in view of the state of art at the time of infringement. This new time framework was discussed at WIPO during meetings for the Patent Law Treaty, which was reduced to a formality treaty and concluded in June 2000.

Further, the newly added latter two requirements are well known legal constructs: condition 4 reminds us of the Wilson golf ball case¹⁰ in the U.S., in which it was noted that the application of the doctrine hinges on a hypothetical patent claim crafted to be unobvious over the prior art and cover the alleged infringing product; and condition 5 suggests the prosecution history estoppel, which is well recognized and established as defense in some countries including Japan.

The significance of this decision is the fact that it was rendered by the Supreme Court. In a strict sense, Supreme Court decisions alone have the authoritative status in Japan. Different from lower court decisions, Supreme Court decisions function as law and are regarded as binding on lower courts. The fact that the Supreme Court said nothing negative about the doctrine of equivalents and clarified the criteria gives legitimacy to assertions of doctrine of equivalent infringement. Lower courts have handed down a number of decisions on the application of the doctrine since this Supreme Court decision, and the above criteria have invariably been adopted in those decisions. Generally speaking, however, the percentage of decisions in which the doctrine was applied in favor of patentees remains small or about 4-6% of all cases in which the doctrine is asserted, and it should be understood that the doctrine of equivalents is available only in very limited situations. In recent years, condition (1) of the above five conditions tends to be given smaller weight because condition (1) turned out to be a very tough hurdle to overcome for the patentee.

International Aspects of the Doctrine of Equivalents

The doctrine of equivalents is recognized in many countries now. This concept is particularly well developed in the United States and Germany. In the United Kingdom, it is often noted as "purposive construction" of patent claims. Factors considered by

¹⁰ Wilson Sporting Goods Co. v. David Geoffrey & Associates, 904 F.2d 677 (1990)

courts in different countries can be similar superficially, but the actual application of such factors may vary considerably from one country to another.

In the Festo case,¹¹ the Court of Appeal for Federal Circuit decided *en banc* (i.e., by all the judges of the court) to severely limit the scope of equivalents by prosecution history estoppel.¹² Subsequently, the U.S. Supreme Court modified the CAFC decision to give some more flexibility in applying the doctrine, but at the same time confirmed the general direction the CAFC has been taking.¹³ In view of this decision and such decisions as the Supreme Court decision in Warner-Jenkinson v. Hilton Davis 520 U.S. 17 (1997), the U.S. courts now tend to limit the availability of the doctrine of equivalents, in favor of certainty on the scope of patent protection.

Also, according to the amendment of the European Patent Convention, which took effect in 2007, the well-known protocol to Article 69 of EPC was revised. A new Article 2 was added to the Protocol on the Interpretation of Article 69 EPC. It was made clear that the scope of protection is not limited to the wording of the claims, but is extended to equivalents. In accordance with Article 2, “due account shall be taken of any element which is equivalent to an element specified in the claims.” An Article 3 was proposed on the prosecution history estoppel, but it was not included in the final text of the Protocol. This may be regarded as reflection of the fact that no strict principles comparable to the US-style prosecution history estoppel with respect to amendments made during the prosecution of patent applications exist in Europe.

Chapter 3: Invalidity Defense

We have two ways to assert invalidity of a patent in Japan: one is invalidation trials at the Japan Patent Office, and the other is invalidity defense during patent infringement litigation.

Invalidation Trial at the JPO

Article 123 of the Patent Act stipulates that an interested person may request a trial for patent invalidation. A petition for an invalidation trial can be filed anytime once a patent

¹¹ FESTO CORPORATION v. SHOKETSU KINZOKU KOGYO KABUSHIKI CO., LTD., No. 95-1066. Decided November 29, 2000.

¹² Prosecution history estoppel prohibits the patentee from asserting something that is contrary to what he stated during the prosecution of the relevant patent application before the patent office. In some cases, the applicant argues before an examiner that a patent claim should be interpreted narrowly or amends a patent claim to distinguish his invention from prior art and successfully obtains a patent. He is then estopped from saying, for example, that his claim is broad enough to cover an allegedly infringing product before the court contrary to his previous argument or claim amendment.

¹³ FESTO CORP. v. SHOKETSU KINZOKU KOGYOKABUSHIKI CO. (00-1543) 535 U.S. 722 (2002) 234 F.3d 558, vacated and remanded. Argued January 8, 2002 and decided May 28, 2002.

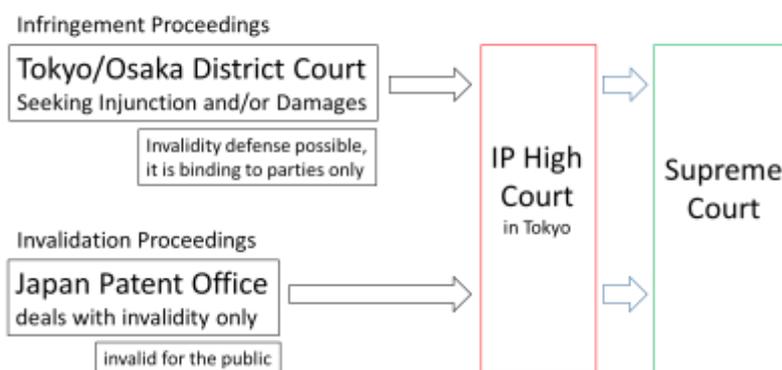
is granted and even after the patent has lapsed. It is also possible to file the petition during patent infringement litigation.

Invalidity defense before an infringement court

Article 104-3(1) of the Patent Act provides that: "In litigation concerning the infringement of a patent right or an exclusive license, if the patent is recognized as it should be invalidated by a patent office trial for invalidation, the rights of the patentee or exclusive licensee may not be enforced against the adverse party." This provision codified an earlier Supreme Court decision of April 11, 2000 in the so-called Kibly case, in which the Supreme Court stated that: "if it is clear that the patent in dispute has grounds for invalidation, a demand for an injunction, damages, etc. based on the patent right should be deemed as an abuse of patent right and should not thus be allowed unless there are special circumstances."

[Case No. 6] Kilby Case

Dual Invalidation System for Patents



Chapter: Injunctions

Article 100 of the Patent Act provides that: "(1) A patentee or exclusive licensee may demand a person who infringes or is likely to infringe the patent right or exclusive license to stop or prevent such infringement. (2) In making a demand under the preceding paragraph, the patentee or exclusive licensee may demand measures necessary for the prevention of such infringement including the disposal of products constituting such act of infringement (including, in the case of a patented invention of a process of producing products, products produced by the act of infringement; the same shall apply in Article 102(1)) and the removal of facilities used for the act of infringement."

These provisions are understood to mean that the patentee can obtain an injunction once the court finds a patent infringement. There are no other criteria or requirement for the court to issue an injunction. This is one of the important pillars in the Japanese Patent Act, and different from the U.S. law in which an injunction is available under the concept

of equity.

It is still possible, however, for the court not to grant an injunction even if there is a patent infringement, if overriding circumstances exist. In such a case, the court often uses the doctrine of abusive use of rights.¹⁴

[Case No. 7] Apple v. Samsung Case - FRAND declaration and injunction

Chapter 5: Damages

General provisions on damages awards exist in the Civil Code.¹⁵ For intangible assets like patents, however, it is usually difficult to establish a clear relationship between infringement and damages. The Patent Act therefore provides for three special ways of damages calculation.

First, the profits the infringer gained in connection with infringing acts can be presumed equal to the damages the patentee suffered.¹⁶ This presumption used to be believed available only if the patentee works the patented invention, but this working requirement was reversed by a Grand Panel decision of the IP High Court dated February 1, 2013 (Case No. 2012(ne)10015).

[Case No. 8] New Interpretation of Article 102(2) - Grand Panel of IP High Court

Second, the reasonable royalty may be awarded as a minimum even if the patentee does not use the patented invention.

The third way of damages calculation is relatively new and was introduced in the 1998 amendment to the Patent Act. The damages award can be calculated by multiplying the number or amount of products the infringer sold with a marginal profit the patentee enjoyed.¹⁷ This third way possibly gives rise to a large award, because the profit figure

¹⁴ Article 1(3), Civil Code provides that: "(3) No abuse of rights is permitted."

¹⁵ Article 709, Civil Code, which reads as follows: "A person who has intentionally or negligently infringed any right of others, or legally protected interest of others, shall be liable to compensate any damages resulting in consequence."

¹⁶ Article 102(2), Patent Act. Article 102(2) reads as follows: "Where a patentee or exclusive licensee claims, from a person who has intentionally or negligently infringed the patent right or exclusive license, compensation for damage caused to him by the infringement, the profits gained by the infringer through the infringement shall be presumed to be the amount of damage suffered by the patentee or exclusive licensee."

¹⁷ Article 102(1), Patent Act. Article 102(1) provides that: "Where a patentee or exclusive licensee claims, from a person who has intentionally or negligently infringed the patent right or exclusive license, compensation for damage caused to him by the infringement, and the person's act is the assignment of articles by which the act of the infringement was committed, the sum of money with the profit per unit of such articles multiplied by the number of articles (hereinafter referred to in this paragraph as the

used would be the marginal profit of the patentee's products or the profit the patentee enjoyed on the last product it sold. It should not be difficult for the patentee to show profit figures based on its own accounting figures. In order to arrive at a figure for the marginal profit, only normal manufacturing and sales costs can be deducted from the gross profit. It is probably not allowed to deduct initial R&D costs and marketing or advertising costs. Therefore, the percentage of the marginal profit in the unit price can be much higher than ordinary profits a manufacture enjoys during normal course of business.

[Case No. 9] Article 102(2)

[Case No. 10] Article 102(1)

[Case No. 11] Article 102(1) in view of Article 102(2) and (3)

"number of assigned articles") which the patentee or exclusive licensee could have sold in the absence of the infringement may be estimated as the amount of damage suffered by the patentee or exclusive licensee within a limit not exceeding an amount attainable depending on working capability of the patentee or exclusive licensee. Where there is any circumstance that prevents the patentee or exclusive licensee from selling part or the whole of the number of assigned articles, a sum equivalent to the number of assigned articles subject to that circumstance shall be deducted."

[Case No. 1]
Product-by-Process Claims

Pravastatin Sodium Case

The Second Petty Bench, the Supreme Court
Decided on June 5, 2015
Case Nos. 2012(ju)1204 and 2012(ju)2658

Appellant-plaintiff: a Hungarian subsidiary of Teva Pharmaceutical Industries, Ltd.
Appellee-defendant: Kyowa Hakko Kirin Co., Ltd. (in 2012(ju)1204)
Tohri Company Ltd. (in 2012(ju)2658)

Product-by-process claim drafting and interpretation were greatly modified by the Pravastatin Sodium Case decisions (the Supreme Court of Japan, June 5, 2015, Second Petty Bench, case Nos. 2012(ju)1204 and 2012(ju)2658). The Supreme Court reversed the Grand Panel¹⁸ of the IP High Court. Two points were emphasized in the opinion of the Court:

Products made by a Different Process Infringe the Claim: “[E]ven if a patent claim concerning a product invention recites the manufacturing process of a product, the technical scope of the patented invention should be determined to cover products that have the same structure and characteristics, etc., as those of the product made in accordance with the manufacturing process.”

Product-by-Process Claims When Only Way to Define a Product: “[W]hen patent claims concerning a product invention recite the manufacturing process of a product, such claims would satisfy the requirement [that] “the invention be clear” according to Article 36(6)(ii), Patent Act, only if circumstances exist under which it is impossible or utterly impractical to directly identify the structure or characteristics of the product at the time of filing.”

In fact, the Supreme Court adhered to the theory it created years ago that a product claim should be, as a rule, delimited by the structure or characteristics of the inventive product despite the fact that in 1994, Article 36 of the Patent Act was amended to allow for more flexibility in claim drafting. The Supreme Court allowed the use of product-by-process limitations in the claims only if it is impossible or utterly impractical to define the invention without using such limitations. In order to justify the two theses mentioned above, it created a new category of the lack of clarity under Article 36(6)(ii).

An analysis follows, with more expansive extracts from the Supreme Court opinion at the end of this article.

¹⁸ The Grand Panel consists of the heads of the four divisions that exist in the IP High Court plus one judge.

The Supreme Court *Lipase Decision* (1991): The Supreme Court in this decision recognized the importance of the public notice function of patent claims. Citing the *Lipase Decision*, the Court in the *Pravastatin Sodium Case* reiterated the public notice function of patent claims. In the earlier *Lipase Decision* the Supreme Court rejected the idea of reading a limitation from the specification into pending claims. The Tokyo High Court (now IP High Court) read "lipase" in the claim as the species "Ra lipase" because all examples in the specification in the context of the patent examination proceedings were for Ra lipase. The *Lipase Decision* was an appeal from a JPO decision to reject the application.

The Supreme Court stated that:

When the patentability requirements according to Article 29(1) and (2), Patent Act, that is, the novelty and inventive step of an invention found in a patent application are reviewed, the gist of the invention in the application has to be determined in order for the invention to be compared with prior art defined in Article 29(1). Unless special circumstances exist, this determination of the gist has to be made based on the recitations in the claims. Only if special circumstances exist such as when the technical meaning of a recitation in the claim cannot be understood without ambiguities, or when it is apparently clear that such recitation is an error with reference to the detailed descriptions of the invention in the specification, it is permitted to refer to the detailed description of the invention in the specification.

Justice Yamamoto's Sharply Worded Concurrence: Justice Tsuneyuki Yamamoto, who started his career as a bureaucrat at the Ministry of International Trade and Industry (now the Ministry of Economy, Trade and Industry), concurred with the judgement but strongly criticized the majority opinion.

He pointed out that the Patent Act was amended in 1994 with respect to Article 36(5)(ii), which required that patent claims must "set forth only the features indispensable for the constitution the invention." The corresponding provision after the amendment is in Article 36(5), which requires that claims must set forth "all matters which an applicant for a patent considers necessary in defining an invention." Noting discussions made in the report of the council responsible for the amendment and also quotations from the current examination guidelines published by the Japan Patent Office, he noted that the amendment and current JPO practice allow functional and process limitations in claims, while product-by-process claims are also subject to other patentability requirements such as clarity of claims and novelty.

He noted that the majority opinion would upset such interpretation of the Patent Act and also the current examination practice. He also pointed out that, in a large number of cases, if the format of product-by-process claims is not used, claims become rather unclear. He gave an exemplary claim which recites that "a cell produced by introducing a certain gene into a certain cell in a certain way." He argued that such a claim is very easy to understand for a skilled person. On the other hand, if the cell has to be defined in terms of structure or characteristics, the

resulting claim would be understandable to no one. This is against the ideal of the Patent Act which aims at a proper balance between the protection of inventions and public use.

He also cautioned that if product-by-process claims are allowable only "if circumstances exist under which it is impossible or utterly impractical to directly identify the structure or characteristics of the product at the time of filing" as in the majority opinion, it would become practically impossible use process-by-process limitations.

He also questioned the expansive interpretation of Article 36(6)(ii) (clarity requirement) by stating that: "According to the majority opinion, if product-by-process claims are refused or invalidated as violating the clarity requirement when such claims do not satisfy the requirement that it is impossible or impractical to specify the claimed product without a process limitation goes far beyond the traditional interpretation of Article 36(6)(ii), and such new interpretation is clearly wrong."

Justice Yamamoto agreed with the majority opinion in that the product-by-process claim should also cover products that are not made by the recited process. He also agreed to remand the case back to the IP High Court.

Two Decisions: The two Supreme Court decisions were handed down on the same day. A Hungarian subsidiary of Teva Pharmaceutical Industries, Ltd. separately sued two Japanese companies, Kyowa Hakko Kirin Co., Ltd. and Tohri Company Ltd., for infringement of a Japanese patent it owns, patent No. 3737801. The first case involving Kyowa Hakko Kirin resulted in the Grand Panel decision of the IP High Court, which addressed the issue of infringement of the product-by-process claim. The other case involving Tohri lead to another IP High Court decision rendered by an ordinary panel of three judges. The main issue in the second decision was an invalidity defense - the lack of inventive step. The second decision (case No. 2012(ju)2658) is just a paraphrased version of the first decision (case No. 2012(ju)1204), and they are substantially the same. In this paper, we base our analysis on the first decision involving Kyowa Hakko Kirin.

Supreme Court Reference to American Court Decisions: In the supporting opinion, Justice Chiba discussed the *en banc* decision of the Federal Circuit in *Abbott Labs. v. Sandoz, Inc.* (2009), and the *Nautilus* United States Supreme Court decision.

Implications for Product-by-Process Claiming in Japan: Under these new Supreme Court decisions, the Japan Patent Office now has to examine patent applications containing product-by-process claims to determine whether or not any circumstances exist under which it was impossible or impractical to directly identify the structure or characteristics of the product at the time of filing. The burden rests on the applicant to show such circumstances existed as of the filing date. It is generally not easy to show that something is impossible to accomplish while it may

be easier to show the contrary. Also, the applicant may have to make sure that the structures or characteristics of, say, antibiotics, microorganisms or modified cells are described in detail in the patent application, although claims identifying such structures or characteristics may be more difficult to understand. Also, the scope of these decisions may not be limited to biotech and pharmaceutical fields. Inventions in such fields like metals, alloys or even mechanical engineering may face problems if claims contain some language that suggests use of a process.

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Pravastatin Sodium Case
Patent infringement case demanding injunction

The Second Petty Bench, Supreme Court
Decided on June 5, 2015
Case No. 2012 (ju) 1204

*Excerpts from the opinion**

MAIN TEXT

The original decision is reversed, and the case is remanded to the Intellectual Property High Court.

REASON

Concerning the first, second, fourth, and fifth points raised in the Petition for Acceptance of Final Appeal by appeal attorney Kiyoshi Kamiya.

1. In the present case, the appellant, who has a patent including a so-called product-by-process claim which recites the manufacturing process of a product while the patent is granted on a product invention, asked for an injunction on the manufacture and sale of pharmaceutical products the appellee produces and the disposal of such products, because the appellee's pharmaceutical products allegedly infringe on the appellant's patent. The appellee asserts, for example, that such pharmaceutical products do not fall under the technical scope of the patented invention of the appellant. An issue in dispute is how the technical scope of a patented invention should be determined when the manufacturing process is recited in a patent claim directed to a product invention.

* This is an English Translation of the Majority Opinion of the Supreme Court of Japan in Case No. 2012(ju)1204 as published on the web site of the Supreme Court (Supporting Opinion by Justice Katsumi Chiba and Opinion by Justice Tsuneyuki Yamamoto are not included. Underlining is shown as it appears in the decision.)

2. Summary of the original court decision and determined facts are as follows.

(1) The present patent

The appellant has a patent on an invention entitled "Pravastatin sodium substantially free of pravastatin lactone and epi-pravastatin, and compositions containing same," (patent No. 3,737,801, and the number of claims is nine. Hereinafter, it is called "the subject patent.")

(2) The present invention

Claim 1 among the claims of the subject patent (hereinafter referred to as "the subject claim") is as follows (hereinafter referred to as "the present invention"):

"Pravastatin sodium in which a mixed amount of the pravastatin lactone is less than 0.5 % by weight, and a mixed amount of epiprava is less than 0.2% by weight, prepared by a process comprising the following steps:

- a) forming a concentrated organic solution of pravastatin;
- b) precipitating pravastatin as an ammonium salt thereof;
- c) purifying the ammonium salt by recrystallization;
- d) transposing the ammonium salt to the pravastatin sodium; and
- e) isolating pravastatin sodium."

(3) The appellee's product

A. The appellee manufactures and sells pravastatin Na salt tablets 10mg of the drug "KH" (formerly known as pravastatin Na salt tablets 10mg "Merck", hereinafter referred to as "the appellee's product").

B. The appellee's product contains pravastatin sodium that has less than 0.5 wt% of mixed pravastatin lactone and less than 0.2 wt% of mixed epiprava. Its method of manufacture, at least, does not involve "a) forming a concentrated organic solution of pravastatin" recited in the subject claim.

3. The original decision dismissed the demand of the appellant and made determinations as follows:

(1) The technical scope of a patented invention, when the manufacturing process of a product is recited in a patent claim directed to a product invention, the technical scope of such invention should be limited to products manufactured according to the manufacturing process described in the claim, unless there exist circumstances in which it is impossible or difficult at the time of filing to directly identify the product by its structure or characteristics.

(2) Since no such circumstances as in (1) above do not exist for the present invention, the technical scope of the present invention should be limited to those manufactured by the production process. The process for making the appellee's product does not involve at least "a) forming a concentrated organic solution of pravastatin" recited in the

subject claim, the appellee's products do not fall within the technical scope of the present invention.

4. However, we cannot accept the criteria indicated in 3(1) above discussed in the original decision, and we cannot accept the determination made on the basis of such criteria discussed in 3(2) above. The reasons for this are as follows:

(1) The claims attached to the application have the function of defining the technical scope of the patented invention based on statements in the claims (Article 70(1), Patent Act), and are also based on statements in the claim, the gist of the invention in the patent application is determined for the purpose of examination of patentability requirements such as those prescribed in Article 29 of the same Act¹⁹ (Supreme Court decision of March 8, 1991, Case No. 1987(gyotsu), the ruling of the Second Petty Bench, published in *Minshu*, Vol. 45, No. 3, page 123). While patents are granted on product inventions, method inventions, and inventions of processes for producing products, when a patent is granted on a product invention, the effect of the patent covers products that have the same structure and characteristics, etc. as those of the patented product without any regards to the manufacturing process.

Therefore, even if a patent claim concerning a product invention recites the manufacturing process of a product, the technical scope of the patented invention should be determined to cover products that have the same structure and characteristics, etc., as those of the product made in accordance with the manufacturing process.

(2) By the way, according to Article 36(6)(ii), Patent Act, recitations in the claims have to satisfy the requirement that "the invention be clear". The patent system is to provide protection over inventions for patentees by granting patents that are monopolistic rights to those who disclosed inventions, and encourage the utilization of inventions by letting third parties know of patented inventions, for the purpose of encouraging inventions, and thereby contributing to the development of industry (Article 1, Patent Act). We understand that the requirement of clarity of the invention in the claims according to Article 36(6)(ii) is provided for this purpose. In view of this, in every case where a manufacturing process of a product is described in a patented claim directed to a product invention, if the effect of such patent is determined in such a manner that the technical scope of the patented invention is determined to cover products that have the same structure and characteristics, etc. as those of the product made in accordance with the manufacturing process, it is problematic in that third party interests may possibly be unjustifiably prejudiced. In other words, if the manufacturing process is recited in a patented claim directed to a product invention, it is generally unclear what structures or characteristics of the product are represented by the manufacturing process, or it is unclear whether the technical scope of the claim directed to a product invention is limited to products manufactured by the manufacturing process. The reader of such recitation in the claims cannot clearly understand the content of the invention, making to what extent the proprietor has monopoly unpredictable. This is not appropriate.

¹⁹ The term "technical scope" is used associated with infringement determination, and the term "gist" is used associated with the examination of patentability requirements.

On the other hand, in a patented claim directed to a product invention, such product is ordinarily identified by clearly reciting its structure and characteristics in a direct manner. However, depending on the nature, property or the like of the product, it may be technically impossible to analyze its structure or characteristics at the time of filing, or it may require significantly large economic outlay or time to carry out work necessary for identification. In view of the nature of patent applications which requires promptness, etc., it may not be practical to require applicants such identification in some cases. Therefore, it should be made possible to recite a manufacturing process in a claim directed to a product invention. If the above-mentioned circumstances exist, third party interests would not be unjustifiably harmed even if the technical scope of the patented invention is determined to be products that have the same structure and characteristics, etc. as those of the product made by such manufacturing process.

As we have discussed above, when patent claims concerning a product invention recite the manufacturing process of a product, such claims would satisfy the requirement of "the invention be clear" according to Article 36(6)(ii), Patent Act, only if circumstances exist under which it is impossible or utterly impractical to directly identify the structure or characteristics of the product at the time of filing.

5. Differing from the above, the judgement in the original decision, which says that when a manufacturing process of a product is recited in a claim, while generally allowing such recitation in the claim, to say that the technical scope of the patented invention should be limited, as a rule, to products manufactured according to the manufacturing process described in the claim is a clear violation of law which affects the judgement in the decision. The drift of arguments is reasoned, and the original decision has to be reversed. Then, the case is remanded to the original court, so that in accordance with what is discussed in this decision, proceedings should be completed concerning whether the recitations in the subject claim satisfy the requirement of "the invention be clear" and allowable when the circumstances discussed in Article 4(2) above exist, and the technical scope of the subject invention should be determined.

Thus, in the opinion of the justices unanimously, it is ruled as in the Judgment. In addition, Justice Katsumi Chiba has a supporting opinion²⁰, and Justice Tsuneyuki Yamamoto has an opinion²¹.

- The rest of the decision has not been translated -

²⁰ Justice Chiba explained the majority opinion (which is about 5 pages in length) in greater detail (about 8 pages).

²¹ Concurring in judgement, but Justice Yamamoto is very critical of the majority opinion.

[Case No. 2]

Experimental use exception and testing of patented drugs for marketing approvals

Guanidinobenzoic Acid Derivatives Case

The Second Petty Bench, the Supreme Court
Decided on April 16, 1999
Case No. 1998(ju)153

Ono Pharmaceuticals Co., Ltd. v. Kyoto Pharmaceutical Industries,

On April 16, 1999, the Supreme Court of Japan rendered a decision on the issue of experimental use exemption and tests done by generic drug makers during a patent term. The Court found that tests carried out during a patent term in an attempt to obtain governmental approvals for manufacture and sales of patented drugs after the expiration of a patent do not constitute patent infringement under Article 69(1) of the Patent Act. This Supreme Court decision puts the question to rest in favor of generic drug manufacturers from a judicial point of view.

BACKGROUND

This matter started when a French pharmaceutical company, Synthelabo, sued several Japanese generic drug manufacturers at the Toyama and Nagoya District Courts in 1995. Synthelabo accused the Japanese drug manufacturers of infringing on its two patents which had their terms extended because of the TRIPS related patent law amendment introducing a uniform 20 years patent term. The generic manufacturers carried out tests during the patent term in an attempt to obtain governmental approvals for manufacture and sale after the expiration of the patents. The defense was that since the use of the patented inventions was for “experiment or research,” it did not constitute patent infringement under Article 69(1) of the Patent Act, which exempts the working of a patented invention for the purpose of experiment or research from the scope of patent protection. Also, because the defendants were preparing for the manufacture and sale after the expiration of the patents when the patent law amendment was announced to extend the patent term, they had, according to the defendants, a kind of intermediate user rights based on transitory provisions that accompanied the law amendment.

The Nagoya District Court granted preliminary injunctions in three separate rulings (see, for example, Synthelabo v. Taiyo Yakuhin Kogyo K.K., case No. 1995(yo)771 on March 6, 1996). The court found that the experimental exemption of Article 69(1) was not applicable because the tests carried out by the generic manufacturers were not for the products. Because both of the patents expired on March 26, 1996, the preliminary injunctions lasted only 20 days. The Toyama District Court denied preliminary injunction orders, but in appeal the Kanazawa branch of the Nagoya High Court granted such orders on March 16, 1996 for essentially the same reasons as those given by the Nagoya District Court.

Probably, the judges in these courts had in mind an earlier Tokyo District Court decision for the Ethofumesate case which was part of the global litigations between Monsanto and Stauffer, in which it was found that: “the experiments on agricultural chemicals carried out in the present case for obtaining government registration required for the sales of such chemicals were not intended to advance technology and were only for the sale of the accused herbicide, and therefore do not fall under the ‘experiment or research’ provided under Article 69 of the Patent Act.”

These decisions were followed by a rush of lawsuits against generic drug manufacturers. It then became clear from a decision rendered on July 18, 1997 that the Tokyo District Court believed that tests carried out by generic drug manufacturers were for "experiment or research" under Article 69(1) and therefore the experimental use exemption was applicable. This was in clear contrast to the finding of the Nagoya District and High Courts.

The Osaka District Court found infringement, but was reluctant to give any relief to patentees because the amounts of patented drugs made and used by generic drug manufacturers were very small and the damages amounted to only several hundreds of US dollars' worth. In more recent decisions, the same Osaka District Court found no infringement under Article 69. The German Supreme Court decision in the so-called Clinical Trial II case 6 may have influenced these two courts.

After many decisions along the lines discussed above from various district courts, on March 31, 1998, the Tokyo High Court, which is most experienced in patent matters, rendered an eagerly awaited decision on this issue. The court rejected an appeal made by Otsuka Pharmaceuticals against the above-mentioned Tokyo District Court decision in which experiments carried out by a generic drug manufacturer for obtaining a governmental approval for sale after the expiration of a patent were found not to constitute patent infringement under the experimental use exemption.

In January and February 1999, the Osaka and Nagoya High Courts rendered several further decisions on this issue. The two courts found that the experimental use exemption was applicable for such testing, which is basically in agreement with the Tokyo High Court. This is in contrast to two other decisions another division of the Nagoya High Court handed down in December 1998 and January 1999 in which no remedies were given to the plaintiff because damages were minimal, but patent infringement was found for such tests.

PROCEEDINGS AT THE LOWER COURTS

The present appeal before the Supreme Court originates from a Kyoto District Court decision of May 15, 1997 (Case No. 1996(wa)1898) and a subsequent Osaka High Court decision of May 13, 1998 (Case No. 1997(ne)1476). In the original lawsuit at the Kyoto District Court, Ono Pharmaceuticals asked for an injunction based on an expired patent. Ono's patent (No. 1122708) had expired on January 21, 1996. Ono argued that because the defendant carried out experiment during the patent term in order to obtain a government approval for manufacture and sale of a drug which falls under the scope of

the patented invention, it infringed on Ono's patent and therefore should not be able to sell the approved drugs even after the expiration of the patent term. Since it normally takes at least two and a half years for generic drug manufacturers to obtain governmental approval and start the sale of their products from the start of the experiment, if the defendant did not infringe on Ono's patent, according to Ono, it could not sell the accused product for at least two and a half years after the expiration of the patent. The defendant did not dispute the fact that it carried out the experiment during the patent term. The issues raised were: whether the accused product falls under the scope of the patented claims; whether the experiment constituted patent infringement; whether it is possible to issue an injunction against the sale of the accused product based on an expired patent; and whether it is possible to issue an injunction against the sale of the accused product based on past illegal acts.

In its decision of May 15, 1997, the Kyoto District Court did not find any basis in the statutes for granting an injunction based on an expired patent. The Court stated that:

“If rights to obtain an injunction order can be enforced even after the patent expires, it would amount to the same results as the patent term being extended. This goes against the reasons for providing the fixed term for patents and allowing limited extensions.”

This court did not consider whether the experiments carried out by the defendant are exempted from patent infringement under Article 69(1) of the Patent Act.

Ono appealed this decision before the Osaka High Court, and added a claim for damages of 8,711,391 yen (about 73,000 US dollars) for infringement during the patent term and the two and a half year period after the expiration of the patent.

The Osaka High Court directly answered the question of experimental use exemption. The Court stated in its decision that:

“Therefore, even though the provision for ‘the working of the patented invention for the purpose of experiment and research’ discussed above contains no literal qualifications, it is clear that the manufacture and stocking of patented products in preparation for sale after the expiration of the patent term is not all owed under the guise of ‘experiment and research.’ However, the outcome of ‘experiment and research’ is not necessarily directly related to tangible fruits and may not contribute directly to the development of science and technology. Rather, it can often be the case that information which can be used merely as the foundation of future scientific and technological developments may be obtained as a result of multifaceted examination and analysis of the patented invention, and such information may only indirectly contribute to the progress of science and technology. Thus, it would not be appropriate to interpret ‘experiment and research’ only as cases in which direct and specific fruits are gathered.”

In response to the argument of Ono that it would be unfair for original drug developers if

the generic drug manufacturers could perform experiments during the patent term in view of the greater obstacles before original drug manufacturers, such as long research periods, high investments and erosion of patent terms due to lengthy governmental approval processes, the court stated that:

“However, the issue of erosion of the patent term has been addressed in the patent law amendment of 1987, which allowed the limited extension of the patent term specifically for pharmaceuticals, etc. (Article 67(2) of the Patent Act; even if such extension is insufficient, it is a matter of legislation and policy), and it cannot be denied that an early entry of generic drugs into the market is beneficial to the general public. It would not be appropriate to place an emphasis only on the profits of original drug manufacturers.”

In this decision, the Osaka High Court did not consider the rest of the issues raised by the parties and rejected the appeal.

HELD

As shown in the English translation below, the decision of the Supreme Court is short. The Court emphasized the importance of the balance between monopolizing rights enjoyed by the patentee during a limited period of time and benefits of the public resulting from the disclosure of inventions. It reasoned that if experiments done by generic drug manufacturers during the patent term constitute patent infringement despite the provisions of Article 69(1) of the Patent Act, an arbitrary extension of the patent term would effectively result, and such extension is not allowable under the Patent Act, which clearly limits the patent term.

COMMENTS

This decision was rendered unusually quickly. It took less than one year for the Supreme Court to issue a decision with its own opinion. This is clearly one of welcome signs for changes in the Japanese judicial system in general. This type of the appeal used to take two years or more to decide, if the Supreme Court chose to address some substantive issues. Inconsistent positions taken by courts on basically the same issue probably forced the Supreme Court to act fast. In fact, this speed is what the Court has recently been preaching. With the new Code of Civil Procedure, which contains a number of specific measures to allow courts to finish cases within shorter periods of time, having come into effect in January 1998, the Supreme Court has been publicly emphasizing the importance of speed whenever possible.

On the other hand, many of the issues raised during the lower court proceedings in this particular case and in other similar cases were left untouched in this decision. For example, the relationship between the patent term extension for pharmaceutical patents and the experimental use exemption is an important issue, and it would have been better to have the Supreme Court's opinions on it. Such omission of issues from this decision may be understood as a signal from the Supreme Court that such issues are not considered important. However, this is not clear. The lack of details is evident when compared

with extensive expositions made by the German Supreme Court in comparable cases in Germany.

* * *

Translation of the Supreme Court decision of April 16, 1999
on the issue of experimental use exemption and generic drugs

The Second Petty Bench, the Supreme Court
Decided on April 16, 1999
Case No. 1998(ju)153

Appellant-defendant: Kyoto Pharmaceutical Industries, Ltd.
Appellee-plaintiff: Ono Pharmaceuticals Co., Ltd.

Against the decision the Osaka High Court rendered on May 13, 1998 in a case involving a request for an injunction on pharmaceutical products (Case No. 1997(ne)1476) between the above-mentioned parties, an appeal has been filed by the Appellant. Therefore, this court decides as follows:

MAIN TEXT

The present appeal is rejected, and the cost of this appeal is to be borne by the Appellant.

REASON

Concerning the reasons for requesting the acceptance of the appeal set forth by the attorneys for the Appellant, Keizo TAKASAKA, Yoichiro NATSUZUMI, Hanroku TORIYAMA, Yasuaki IWAMOTO, Hirofumi ATA, and Yoichi TANABE:

1. In the present lawsuit, the Appellant, who owns a patent on chemical substances and drugs which contain them as effective components, has demanded an injunction against the sale of the Appellee's drugs and a damages award, arguing that the manufacture and use of drugs which are identical to the patented drugs in terms of their effective components, dosages, usage, quantities, indications, efficacy, etc. during the patent term for the purpose of obtaining data that accompany an application for the approval of manufacture under Article 14 of the Pharmaceutical Affairs Law constitute infringement on the patent. The Appellee, on the other hand, has argued that it did not infringe on the patent owned by the Appellant because, for example, the above-mentioned acts would qualify for "the working of the patented invention for experiment and research" under Article 69(1) of the Patent Act.

2. When a party has a patent on chemical substances or drugs which contain such chemical substances as effective components, even if a third party carries out the necessary experiments for obtaining data to be filed accompanying an application for

approval to manufacture provided under Article 14 of the Pharmaceutical Affairs Law by making and using chemical substances or drugs belonging to the technical scope of the patented invention during the patent term for the purpose of manufacturing and selling drugs which have the same effective components, etc. as the patented drugs (referred to as “generic drugs” hereinafter) after the patent term has ended, such acts should be deemed the “working of the patented invention for experiment and research” provided in Article 69(1) of the Patent Act and should not therefore be considered to constitute patent infringement. The reason for this is as follows:

1) The patent system is to encourage inventive activities by providing those who disclose inventions with rights to monopolize the use of the inventions during a certain period of time, and give third parties opportunities to use the disclosed inventions, so that it can contribute to the development of industry. In consideration of this, one aspect of the foundation of the patent system is that once the patent term expires, anyone should be able to freely use the inventions, so that the society in general would benefit.

2) The Pharmaceutical Affairs Law stipulates that a prior approval by the Minister of Health and Welfare is to be obtained for the manufacture of drugs for ensuring safety, etc., and that upon carrying out various experiments, data, etc. on the experimental results must accompany an application when requesting such an approval. It is the same with generic drugs for which a certain period of time must be spent conducting experiments before requesting an approval on their manufacture. For such experiments, it is necessary to manufacture and use chemical substances or drugs that fall under the technical scope of the patented invention owned by the patentee. If under the Patent Act, such experiments are not to be interpreted as “experiment” stipulated in Article 69(1) of the Patent Act and so such manufacture, etc. are not possible during the patent term, the third party cannot, as a result, freely exploit the invention for a substantial period of time even after the term of the patent expires. This result is against the foundation of the patent system mentioned above.

3) On the other hand, it is considered to be an act of patent infringement, and impermissible, for a third party to manufacture generic drugs during the patent term to be assigned after the expiration of the patent or to make or use chemical substances of the patented invention to be used as components of such drugs beyond the extent that is necessary for experiments to be carried out in order to file for the approval of manufacture under Article 14 of the Pharmaceutical Affairs Law. As far as such consideration is applicable, the patentee enjoys the benefits of monopoly over the patented invention during the patent term. If it is possible to exclude others from carrying out manufacture, etc. for the experiments required in applying for the approval of manufacture of generic drugs during the said term, it would be the same as extending the patent term for a substantial period of time. Such extension of the patent term exceeds what is expected under the Patent Act as benefits to be given to the patentee."

3. In view of the above, under the facts lawfully established during the original proceedings, the acts of the Appellee discussed above should be considered to fall under “the working of the patented invention for experiment and research” provided in Article 69(1) of the Patent Act and do not constitute infringement on the patent owned by the

Appellant. The judgement of the original court is justifiable in its conclusion. The gist of the arguments made by the attorneys for the Appellant is based on their own views to attack the original decision, and cannot be accepted.

Thus, we decide as set forth in the section of Main Text as unanimously agreed upon by all the judges.

Presiding Judge:	Shinichi KAWAI
Judges:	Hiroshi FUKUDA
	Koji KITAGAWA
	Tsuguo KAMEYAMA

[Case No. 3]
International Patent Exhaustion

BBS Automobile Aluminum Wheels Case

The Third Petty Bench, the Supreme Court
Decided on July 1, 1997
Case No. 1995(o)1988

Appellant-plaintiff: BBS Kraftfahrzeug Technik AG (of Germany)
Intervenors: Nippon BBS Kabushiki Kaisha and Mashimeir Kabushiki Kaisha
Appellee-defendants: Kabushiki Kaisha Racimex Japan and Kabushiki Kaisha Jap-Auto Products

* * *

Translation of the Supreme Court Decision

MAIN TEXT

The final appeal to this Court is dismissed; and fees for the final appeal should be borne by the Appellant.

REASON

Concerning "reasons for petition for acceptance of final appeal" by Sumio Takeuchi, Attorney for the Appellant and Intervenors:

I. This case was brought by the Appellant against the Appellees who engaged in so-called parallel-importation by way of importing and reselling in Japan products manufactured and sold in the Federal Republic of Germany by the Appellant. The Appellant sought an injunction on importation and sale of products, and damages, based on a patent which the Appellant owns in Japan. The following facts were duly found final by the High Court.

(1) The Appellant owns, in Japan, a patent entitled "Automobile Wheel" (filed on October 29, 1983 claiming priority based on a patent application filed at the European Patent Office on May 27, 1983), published for opposition purposes on January 12, 1990, and granted as Patent No. 1629869 on December 20, 1991. (The patent is hereinafter referred to as the "Subject Patent" and the invention as the "Subject Patented Invention.")

(2) The Appellant owns a patent in Germany to cover an invention similar to the Subject Patented Invention. (It was filed on May 27, 1983 at the European Patent Office with Germany and other countries as designated countries. It was given an application

number of 83105259.2 and was granted a patent on April 22, 1987.) (This patent is hereinafter referred to as the "Corresponding German Patent.")

(3) Up until August 1992, the Appellee, Jap-Auto Products imported aluminum wheels for automobiles called "BBS/RS" as described in Appendix I which was attached to the Decision of the District Court, and aluminum wheels for automobiles called "ROLINZER RSK" as described in Appendix II and sold them to another Appellee, Racimex Japan. Racimex Japan engaged in the sale of these aluminum wheels at least up until August 1992. It was likely that the Appellees would have continued their importation and sale. (Hereinafter, the aluminum wheels mentioned here are collectively referred to as the "Subject Products" including both products have already been sold and those to be sold in the future.)

(4) The Subject Products fall within the technical scope of the Subject Patented Invention.

(5) The Subject Products were manufactured under the Corresponding German Patent, and sold by the Appellant in Germany after the German Patent became effective.

II. In the final appeal to this Court, the Appellees argue for what is called international exhaustion. Namely, the effect of the Subject Patent applicable to the Subject Products had exhausted because of legitimate distribution by the Appellant of the Subject Products in Germany. Therefore, the Appellees' importation and sale of the Subject Products in Japan did not constitute an infringement of the Subject Patent.

The original court dismissed the claim filed by the Appellant against the Appellees for injunction and damages under the Subject Patent. The original court reasoned that the Appellant manufactured and sold the Subject Products under the Corresponding German Patent. It was clear that the Appellant had been provided with an opportunity to secure remuneration for disclosing its invention. There were no admissible facts showing that such opportunity to secure remuneration was legally restricted when the Subject Products were distributed. Legitimate distribution in Germany should be deemed to have caused the Subject Patent to have exhausted with respect to the Subject Products.

III. The original court decided that the Appellant's claims against the Appellees for an injunction and damages under the subject patent have no grounds. This Court agrees to the conclusion of the original court decision. Reasons for this Court's agreement are as follows.

1. "The Paris Convention for the Protection of Industrial Property of March 20, 1883, as revised at Brussels on December 14, 1900, at Washington on June 2, 1911, at The Hague on November 6, 1925, at London on June 2, 1934, at Lisbon on October 31, 1958, and at Stockholm on July 14, 1967, and as amended on September 28, 1979" (hereinafter referred to as the "Paris Convention") provides in Article 4bis that:

(1) Patents applied for in the various countries of the Union by nationals of countries of the Union shall be independent of patents obtained for the same invention in other countries, whether members of the Union or not.

(2) The foregoing provision is to be understood in an unrestricted sense, in particular, in

the sense that patents applied for during the period of priority are independent, both as regards the grounds for nullity and forfeiture, and as regards their normal duration.

These provisions deny the interdependence of patents and stipulate that a patent of each country is independent from others with respect to its grant, change and surrender. In other words, the existence of a patent is not affected by the invalidation, forfeiture, expiration, etc. of a patent in a different country. The question of whether a patentee is allowed to enforce its patent under certain circumstances is not a matter stipulated in these provisions.

Also, the principle of territoriality means, in the context of patents, that the grant, assignment, validity or the like of a patent in each country is governed by the law of that country and that the patent is effective only in the territory of that country.

When a patentee enforces its patent in Japan, would the fact that a product subject to that patent has already been sold outside Japan by the patentee or the like affect enforceability of the Japanese patent? This question is a matter of interpretation of the Japanese Patent Act and is irrelevant to the Paris Convention and the principle of territoriality. It is clear from the foregoing that any interpretation in this respect, whatever interpretation it might be, is not in the breach of the provision of Article 4bis and the principle of territoriality.

2. A patentee has an exclusive right to commercially exploit its patented invention (see Patent Act, Article 68). In the case of an invention of a product, acts of using, assigning or leasing constitute the exploitation of the invention (see, Patent Act, Article 2(3) (iii)). If so, acts of a commercial use or resale to a third party by the buyer who obtained products covered by the patent (hereinafter referred to as "patented product") from the patentee or its licensee, or acts of commercial use or further sale or lease to others by the third party who obtained the patented product from the buyer would appear, on the surface, to constitute the exploitation of a patented invention to cause an infringement of the relevant patent. However, if the sale of the patented product in Japan is done by the patentee or its licensee, a relevant patent in Japan should be considered to have exhausted with respect to such product. In that case, the effect of the patent should no longer extend to the acts of use, assignment or lease of the patented product.

This Court bases this interpretation on the following.

(i) The protection of an invention under the Patent Act has to be achieved in harmony with public interest;

(ii) In general, through the act of sale, all rights attached to the products are transferred to the buyer. The buyer receives all rights the seller owns. When a patented product is placed on the market, the buyer enters into a deal with a presumption that he would obtain rights to freely use and resell the product as a business. If the sale of the patented product requires approval from the patentee for each transaction, the free flow of the product in the market would be interrupted and the smooth distribution of patented product would be disturbed. This would cause adverse effects on the patentee's interests and would be contrary to the purpose of the Patent Act, which aims at encouraging

inventions by "promoting their protection and utilization so as to contribute to the development of industry" (see Patent Act, Article 1);

(iii) On the other hand, a patentee receives proceeds including reward for disclosing its patented invention when the patentee sells its patented product. When it licenses the patent, it receives royalty payments. It can be said that an opportunity to secure a reward for disclosing its patented invention is guaranteed. Thus, once the patentee or its licensee sells patented products, there is no need to allow the patentee to obtain double profits through the process of distribution.

3. However, this rationale cannot be automatically applicable to the case where a patentee of a Japanese patent has sold its patented product outside Japan, because, in that case, the patentee may not have a patent for the same invention as covered by the Japanese patent (hereinafter referred to as the "Counterpart Patent"). Even if the patentee owns the Counterpart Patent, it should be noted that its patent in Japan is separate from its Counterpart Patent in the country where the sale took place. In light of this fact, the patentee shall be free from any claim of double profits even if the patentee enforces its Japanese patent against the product which is a subject matter of the Counterpart Patent.

4. Now, the adjustment between the flow of products in international trade and the patentee's rights will be discussed below. In light of the fact that international trade is conducted on a tremendously broad and sophisticated basis, it is necessary that freedom of trade including freedom to import should be paid utmost respect when a dealer in Japan imports a patented product marketed in a foreign country to put it in a distribution channel in Japan. Through economic transactions outside Japan, a seller transfers his rights to the product to a buyer. The buyer enters into a deal with the presumptuous understanding that he has received all rights the seller owned with respect to the product. In light of status-quo of international trade in the modern society, it is naturally anticipated that the buyer or a third party who purchases a patented product from that buyer can commercially import it into Japan, and commercially use it or resell it to others in Japan, when the product is sold by the patentee outside Japan.

Thus, if the owner of a patent in Japan or a person who can be recognized as an entity identical to the patent owner, sells its patented products outside Japan, a reasonable interpretation is that the patentee should not be allowed to enforce its patent in Japan against the buyer unless the buyer explicitly agrees to exclude Japan from the place of sale or use and against a third party or subsequent buyers who purchases the patented products from the buyer, unless a notice of such agreement is clearly placed on the patented products. That is to say that:

- (i) As discussed earlier, considering that it can be naturally anticipated that a patented product sold outside Japan may be imported into Japan, if the product is sold outside Japan without a reservation, it should be construed that the right to control the purchased product is implicitly given to the buyer and its subsequent purchasers without any restriction under the patent in Japan.
- (ii) With respect to the right of the patentee, it is permissible for the patentee to reserve the right to enforce its patent in Japan when the patentee sells the product outside Japan, if the buyer explicitly agrees with the patentee to the exclusion of Japan from

the place of sale and use of the purchased product, and such exclusion is clearly indicated on the product, the subsequent purchasers will be in a position to learn the product is subject to certain restrictions with respect to their products irrespective of the involvement of other persons in the distribution process, and they can freely decide whether or not to buy patented product, taking into account the presence of such restriction.

- (iii) When the product is sold outside Japan by a subsidiary or an affiliated company which can be regarded as an entity identical to the patentee, such transaction should be deemed as the sale of the patented product by the patentee itself.
- (iv) The buyer of the patented product normally trusts that the free flow of the purchased product is warranted. Such trust should be well protected. It should not matter whether or not the patentee has a counterpart patent in the country of first sale.

5. Now, the above principles will be applied to this case. According to the facts which the original court found, the Subject Products were both sold in Germany by the Appellant, who has the Japanese patent. Taking into account the fact that the Appellant did not argue and prove the existence of any agreement between the Appellant and Appellees for excluding Japan from the place of sale and use, and that of any clear notice of such exclusion on the Subject Products, the Appellant is not allowed to claim an injunction and damages under the Subject Patent with respect to the Subject Products.

The conclusion of the original court is the same as that of this Court as discussed above. Therefore, this Court agrees to that decision. The Appellant's attorney argues that the original court violates laws including the Constitution on the basis of his own views, but his criticisms and discussions do not affect the conclusion of the original court decision. This Court does not accept such arguments.

Thus, according to Articles 401, 95 and 89 of the Civil Procedure Act, this Court has unanimously decided as stated in the Main Text of this decision.

The Third Petty Bench, the Supreme Court

Presiding Judge: Masao Ohno

Judges: Itsuo Sonobe

Hideo Chigusa

Yukinobu Ozaki

Shigeru Yamaguchi

[Case No. 4]
Patent Exhaustion

Ink Tank Case

The First Petty Bench, the Supreme Court
Decided on November 8, 2007
Case No. 2006(ju)826

Appellant-defendant: Recycle Assist Co., Ltd.
Appellee-plaintiff: Canon Inc.

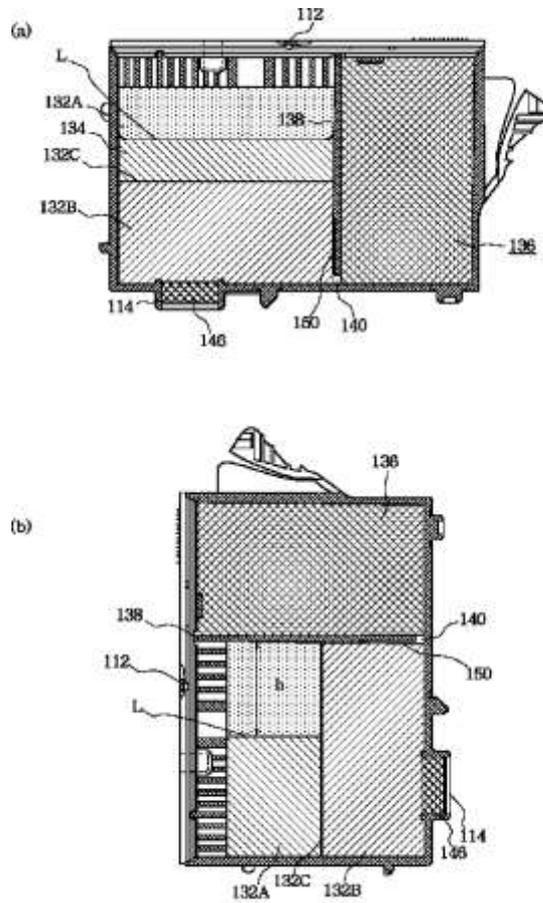


Fig. 2 of Patent No.3278410

* * *

Translation of the Supreme Court Decision
The underlines are as provided in the Decision

MAIN TEXT

The present appeal is rejected, and the fees for the appeal are to be borne by the Appellant.

REASON

Concerning the reasons (except those excluded for this review) in the petition for acceptance of final appeal set forth by the Appellant's attorneys Hiroshi KAMIYAMA, Haruka MATSUYAMA and Nobuyuki KAWAI.

I. The present case is a suit in which the Appellee, having a patent directed to an ink tank for ink jet printers, seeks an injunction for enjoining the Appellant from the importation, sale and other certain acts involving ink tanks for ink jet printers, which the Appellant imports and sells, and for ordering the Appellant to dispose such ink tanks, on the basis that they are within the technical scope of the invention claimed in the Appellee's patent.

II. The following facts were duly found by the original court:

(1) The Patent

The Appellee has Patent No. 3278410, entitled "Liquid Containing Vessel, Manufacture thereof, Package thereof, Ink Jet Head Cartridge Integrated with Vessel and Recording Head, and Liquid Jet Recorder" (hereinafter, "the patent")

(2) The Present Invention

(a) Claim 1 of the above-mentioned patent (hereinafter, the invention of Claim 1 is referred to as "the present invention") reads as follows:

"A liquid-holding container comprising:

a chamber for negative-pressure generating members that contains first and second negative-pressure-generating members in pressure contact with each other and that has a liquid supply portion and an atmosphere communication portion;

a liquid storage chamber that has a communication portion communicating with the chamber containing negative-pressure-generating members and that forms a substantially sealed space and stores liquid to be supplied to the negative-pressure-generating members; and

a partition wall that partitions the liquid storage chamber from the chamber containing negative-pressure-generating members and forms the communication portion;

wherein

an interface in the pressure contact portion between the first and second negative-pressure-generating members intersects with the partition wall;

the first negative-pressure-generating member is in communication with the communication portion and may be in communication with the atmosphere communication portion only through the interface of the pressure contact portion;

the second negative pressure generating member is in communication

with the communication portion only through the interface of the pressure contact portion;

capillary forces at the interface of the pressure contact portion are higher than capillary forces in the first and second negative-pressure-generating members; and

liquid is filled in the chamber containing the negative-pressure generating members with an amount that makes it possible for liquid to be held by the entire interface of the pressure contact portion no matter what posture of the liquid-holding container may take."

(Of the features mentioned above, the feature reciting that "capillary forces at the interface of the pressure contact portion are higher than capillary forces in the first and second negative-pressure-generating members" will be called "Feature H." The feature that "liquid is filled in the chamber containing the negative-pressure-generating members with an amount that makes it possible for liquid to be held by the entire interface of the pressure contact portion no matter what posture of the liquid-holding container may take" will be called "Feature K.")

(b) The present invention relates to an ink tank used in an ink jet printer. According to the prior art, the interior of the ink tank is divided by partition walls into multiple rooms in order to keep ink inside the ink tank and not to let it leak out to the outside of the tank, while increasing the per-unit-volume capacity of the ink tank, and at the same time, allowing the supply of ink at a stable rate. A negative pressure generating member (a porous material such as urethane foam or an ink absorbing material such as felt) is placed in the room near the nozzle supplying ink to the printer (the negative pressure chamber) and the chamber is suffused with ink. The remaining part (the liquid storage reservoir) is simply filled with ink without a negative pressure generating member. However, these ink tanks have the following problem. When the ink tanks are transported or kept in storage before use, they could be left in such a position that the liquid storage reservoir is on top of the negative pressure chamber. When this happens, the air in the negative pressure chamber may trade places with the ink in the liquid storage reservoir through a gas-liquid exchange process. Thus, the ink in the liquid storage reservoir may flow down through the passageway into the negative pressure chamber, and the ink thus suffuses even those areas of the negative pressure chamber that are not originally suffused with ink, overflowing the negative pressure chamber. When the package was opened, ink may leak out from the liquid supply nozzle, etc., and taint the user's hands and the like. The present invention adopts a construction in which: (i) the chamber for negative-pressure generating members contains two negative pressure generating members, with the first being closer to the passageway connecting to the liquid storage reservoir, and the second being closer to the atmospheric vent, and these members press against each other, so as to increase capillary action at the interface of the pressure contact portion, or the interfacial layer, making it stronger than the capillary action of each negative pressure generating member (Feature H); and (ii) the negative pressure chamber is filled with a sufficient amount of liquid such that the entirety of the interface in the pressure contact portion can hold liquid no matter what posture the liquid storage vessel may take (Feature K). With this construction, ink is retained at the interface of the pressure contact portion at all times, a barrier that stops the flow of air is thus formed, and the ink in the liquid storage reservoir is prevented from flowing out to the negative pressure chamber and

overfilling it with ink, no matter what posture the ink tank may take. This construction is how the invention seeks to prevent leakage when the package is opened, so the construction associated with both Features H and K are essential parts of the invention. That is to say these are the technical aspects that form the core of the technical idea which provides foundation toward solving the problems in the prior art.

(3) Appellee's Products (Canon Products)

(a) The Appellee manufactures products in Japan which embody the present invention and sells them domestically and overseas. (These products are ink tanks for ink jet printers, product numbers BCI-3eBK, BCI-3eY, BCI-3eM and BCI-3eC; hereinafter called the "Appellee's products"). The Appellee's affiliates and other licensed entities also sell the Appellee's products overseas. For the products sold overseas it should be noted that the Appellee had no agreement with its licensees to exclude Japan from the territory where the products could be sold or used, and no such exclusion was clearly indicated on the Appellee's products, either.

(b) When the Appellee's products are installed in printers and used for printing, the ink inside them diminishes as the ink flows out from the ink supply nozzle. After being used to a certain extent, part or all of the interface in the pressure contact portion between the first and second negative pressure generating members, which are made of fibrous material, stops holding ink. Printing, however, remains possible even after this.

(c) When the Appellee's products run out of ink they are considered fully used and removed from the printer. But even after the Appellee's products have been fully used there remains a small amount of ink on the walls of the liquid storage reservoir, inside the first and second negative pressure generating members, at the interface of the pressure contact portion where the two negative pressure generating members meet, in the ink supply nozzle, etc. Thus, when the used products are removed from the printer, the ink remaining inside the ink tank dries up with the passage of time. After about a week to ten days, the ink has dried and hardened in an uneven manner inside the numerous small spaces and gaps of the fibrous material of the negative pressure generating members, including the interface in the pressure contact portion, so that air bubbles and air layers are created in such spaces and gaps. Thus, the negative pressure generating members become incapable of absorbing and holding new ink. If the Appellee's used products are refilled in this state they can still be installed in ink jet printers and used as ink storage vessels, but the interface of the pressure contact portion is no longer capable of creating the barrier that stops the flow of air, even if the entire liquid storage reservoir is filled with ink and the negative pressure chamber is also filled to a point above the negative pressure generating members. It should be noted that the Appellee's products are not furnished with holes for refilling ink.

(d) The Appellee's products have a retail price of about 800-1000 yen each.

(4) Appellant's Products (Recycle Assist Products)

(a) The Appellant imports the ink tanks listed in Attachments (1) and (2) to the original

decision, which fall within the technical scope of the present invention (hereinafter referred to as the “Appellant’s products”). The Appellant imports them from a company in Macau, PRC (company name unknown, hereinafter “Company A”), and then sells them in Japan. The Appellant’s products are prepared as follows. An affiliate of Company A (name unknown, hereinafter “Company B”) collects the Appellee’s used ink tank cartridges (hereinafter referred to as “the subject ink tanks”) in and outside Japan. A subsidiary of Company B (hereinafter, “Company C”) then buys the cartridges and uses them to create salable products by cleaning their insides, injecting new ink into them and the like, as explained below. Company A then buys these from Company C and exports them to the Appellant.

(b) The period of time from when the cartridges are removed from printers until Company C refurbishes them as the Appellant’s products is longer than one week to ten days for the ink remaining inside the cartridges to harden. By the time they are refurbished, the negative pressure generating members can no longer absorb and hold new ink, and so the ability of the interface of the pressure contact portion to create a barrier to stop the flow of air has been compromised.

(c) Company C’s procedure for refurbishing the used cartridges to make the Appellant’s products involves: (i) opening a hole for cleaning and injecting ink on the upper surface of the cartridge’s liquid storage reservoir; (ii) cleaning the inside of the cartridge; (iii) applying measures to keep the ink from leaking through the cartridge’s ink supply nozzle; (iv) injecting ink into the negative pressure chamber through the hole mentioned in step (i) above until the ink rises to a point above the interface of the pressure contact portion between the negative pressure generating members, and into the entire liquid storage reservoir; (v) plugging the hole created in step (i) and the ink supply nozzle; and (6) applying labels and the like.

(d) In the Appellant’s products, therefore, the inside of the cartridge is cleaned and the hardened ink is washed away to restore the ability to create the barrier at the interface that stops the flow of air. Not only the liquid storage reservoir is almost completely filled with ink, but also the negative pressure chamber is filled with ink up to a point above the interface where the first and second negative pressure generating members meet. This enables the entirety of the compressed interface to hold ink no matter what posture the ink tank may take.

(e) The Appellant's products have a retail price of 600-700 yen each.

(5) The Appellee’s Efforts to Recover Used Ink Tanks

(a) When used ink tanks are refilled and reused, the ink that has dried inside can clog the ink flow routes and the printer head nozzle, causing such problems as reduced print quality and malfunction of the printer itself. For this reason, the Appellee warns that its products should not be refilled with ink and reused, and recommends that they are for single use only and should be replaced with new ones. In addition to indicating that the ink tanks are of the single-use type, in order to recover used ink tanks the Appellee urges users of the products to replace them with new replacement ink tanks and encourages

users to cooperate with the Appellee's programs for recovering used ink tanks. The Appellee does this on the packaging of its products, in the user manuals of the Appellee's printers that use the Appellee's products, and on the Appellee's web site.

(b) Each company that manufactures ink jet printers, including the Appellee, engages in the sale of ink tanks for use in each company's own printers. (These are called genuine products). Meanwhile, a number of companies sell ink tanks made by refilling genuine products with ink and performing other procedures on them after they have been used (i.e., recycled products). Manufacturing recycled products are mostly similar to Company C's method for making the Appellant's products. Ink is also sold so that ink tank users can refill the ink (i.e., ink refills). The Appellee, however, does not make or sell recycled products or ink for refill.

III. The original court granted the Appellee's demand and held as follows:

When a patentee or licensee has sold a patented article within Japan, its rights under the patent have fulfilled their purpose and should be deemed exhausted with respect to that article, and therefore the patentee no longer has the right to enjoin the use, sale or lease of that article based on that patent (see the Supreme Court decision in *BBS AG v. K.K. Racimex Japan and K.K. Jap-Auto Products* case, case No. 1985(o)1988, July 1, 1997, the Third Petty Bench of the Supreme Court). However, the patent should not be deemed exhausted (i) when the patented article is reused or recycled after completing its normal life and losing its effectiveness as a product (Pattern 1); or (ii) when a part of the article constituting an essential part of the patented invention is partly or completely modified or replaced by a third party (Pattern 2). In such cases the patent should not be deemed exhausted, and therefore the patentee should be permitted to enforce its rights with respect to patented articles.

On the other hand, when the holder of a Japanese patent or a party who may be regarded as such sells a patented article in a foreign country, the patentee should not be allowed to enforce the patent against the importation of that article into Japan, or against the use or sale of that article in Japan by the buyer, unless the patentee has an agreement with the buyer to exclude Japan from the territory of sale or use for such article, or by a third party who acquires the article from the buyer or a subsequent purchaser, unless such agreement is reached with the buyer and the article is clearly marked as such (see the decision of July 1, 1997 by the third Petty Bench of the Supreme Court). However, the patentee should be permitted to enforce the patent with respect to such article (i) if the patented article is reused or recycled after completing its normal lifespan and losing its effectiveness as a product (Pattern 1), or (ii) if a part of the article constituting an essential part of the patented invention is partly or completely modified or replaced by a third party (Pattern 2).

In the present case, the Appellee's products cannot be said to have completed their life and lost their effectiveness as products simply because their original ink has been consumed, and they do not fall under Pattern 1. However, Company C's procedures for refurbishing the Appellant's products to make new products are performed on the cartridges at a point when they do not satisfy Features H and K, which are essential parts

of the present invention. The procedures performed by Company C include cleaning the insides of the ink tanks to wash away the hardened ink and then refilling them with a specific amount of ink and satisfy Feature K. Because these acts of Company C restore the ability to create the barrier along the interface to stop the flow of air, these acts are nothing less than the modification or replacement of a part embodying an essential part of the present invention in the Appellee's products. Therefore, the Appellant's products fall under Pattern 2 regardless of whether they are made using the Appellee's articles sold domestically or overseas. For this reason the enforcement of a patent should not be restricted, and so the Appellee may demand an injunction against the Appellant's importation, sale etc. of the products and their disposal.

IV. The Appellant argues that the original decision employs an illegal standard to determine whether or not the patent can be enforced, and its judgment not to restrict the enforcement of the patent in reliance on that standard is illegal. We do not adopt such arguments. The reasons are as follows:

(i) If the patentee or its licensee (hereinafter, both are referred to as “the patentee”) sells a patented article within Japan, the patent has fulfilled its purpose and is deemed exhausted with respect to that article, so the effectiveness of the patent is lost against the use, sale, etc. (as defined in Article 2(3)(i) of the Patent Act) of the article. When the patentee has made such sale, the patentee should not be permitted to enforce the patent with respect to that article. If the patentee's permission were required every time the patented article is sold, this would obstruct the article's smooth circulation in the market, causing more harm to the patentee's own interests and ultimately contravening the goals of the Patent Act as stated in Article 1 of the Act. At the same time, since the patentee has already had the opportunity to secure its reward for publishing the invention, when the patentee sells the patented article it is no longer necessary to let him benefit twice in the course of its circulation (see the decision of July 1, 1997 by the Third Petty Bench of the Supreme Court). This type of exhaustion is expressly provided for in Article 12(3) of the Semiconductor Integrated Circuit Design Act, and Article 21(1)(iv) of the Seeds and Seedlings Act, and it should be understood that a similar restriction is applicable to the enforcement of a patent.

Exhaustion restricts the enforcement of a patent only for a specific article itself sold by the patentee in Japan. Therefore, when an article sold in Japan by the patentee is modified or its parts are replaced, and thus a patented article having an identity that is different from that of the patented article is considered to have been created, the patentee should be permitted to enforce the patent with respect to the new article. Moreover, in order to determine whether a patented article is newly constructed, it is appropriate to consider the totality of the circumstances including the attributes of the patented article, the details of the patented invention, the manner in which the article has been modified or its parts replaced, as well as the actual manner of the transaction, etc. The attributes of the patented article should include the article's functions, structure and materials, intended uses, lifespan, and the manner in which it is used. The manner in which the article has been modified or its parts have been replaced should include the state of the patented article when it is modified, the nature and degree of the modification, etc., the lifespan of the replaced parts, and the technical function and economic value of those

parts within the article.

(ii) On the other hand, if the holder of a Japanese patent or one who may be regarded as such (hereinafter, both are “the holder of the Japanese patent”) sells a patented article in a foreign country, the patentee should not be allowed to enforce the patent with respect to that article in Japan against the buyer, unless the patentee has an agreement with the buyer to exclude Japan from the territory of sale or use for such article, or by a third party who acquires the article from the buyer or a subsequent purchaser, unless such agreement is reached with the buyer and the article is clearly marked as such (see the decision of July 1, 1997 by the Third Petty Bench of the Supreme Court). This principle limits the patent only with respect to the specific article sold overseas by the holder of the Japanese patent, but it is no different from the case where the patentee has sold the article in Japan. Therefore, when an article sold in a foreign country by the patentee of the Japanese patent is modified or its parts are replaced, and thus a patented article having an identity that is different from that of the patented article is considered to have been created, the patentee should be permitted to enforce the patent with respect to the new article in Japan. Moreover, the determination of whether or not a new patented article has been constructed should follow the same standards as when an article sold in Japan is modified or its parts are replaced.

(iii) As we now turn to the present case, according to the facts given above, when the Appellee's ink tanks are refilled with ink and reused, this can cause problems such as reduced print quality and malfunction of the printer itself. Thus, the Appellee makes it clear that they are for single use only and should be replaced with new one. For this reason, the Appellee's products do not have a hole for refilling ink, and this makes it necessary to open a hole in the cartridges in order to refill the ink. Indeed, in the course of refurbishing them to produce the Appellant's products, a hole is opened on the top surface of the cartridge's liquid storage reservoir and closed after the ink is injected. In this light, the nature of the modification, etc. performed to produce the Appellant's products goes beyond simply refilling consumable ink, and it is nothing less than a physical alteration to the ink tank cartridge to make it refillable.

Furthermore, according to the facts described above, it is the ink itself in the Appellee's products which performs the technical function of becoming the barrier at the interface in the pressure contact portion to stop the flow of air. Thus, once the ink is consumed to a certain degree, some or all of the interface in the pressure contact portion loses its ability to hold ink. Moreover, when the Appellee's used products are removed from the printer, the residual ink inside them hardens in about one week to ten days. Thus, if the used ink tank is refilled in this condition, the ink cannot form the barrier to stop the flow of air, even if the entire liquid storage reservoir is filled with ink and the negative pressure chamber is also filled to a point above the interface in the pressure contact portion where the negative pressure generating members meet. As for the Appellant's products, however, the inside of the cartridges is cleaned to wash away the hardened ink and restore the ability to create the barrier along the interface in the pressure contact portion that stops the flow of air, and the ink is also filled to the same level as the Appellee's articles before they can be used. These steps return the ink tank to the state in which ink can be held along the entirety of the interface in the pressure contact portion no matter what posture

the ink tank may take. For this reason, we can say that the manner in which the ink tanks are modified, etc. goes beyond simply refilling consumed ink. The used cartridges are reused in such a manner that articles that have ceased to possess structures embodying essential parts of the present invention (Features H and K) are made to have these features again. We see no choice but to hold that this re-creates the substantive value of the present invention, and enables the articles to achieve the operational effect of the present invention for a second time, so that the leakage of ink is prevented before the package is opened.

Additionally, when we consider *in toto* the circumstances of the transactions involving the ink tanks along with the other circumstances appearing in the facts described above, the Appellant's products should be viewed as new creation of patented articles having identities different from those of the Appellee's products prior to modifications. The present patent, therefore, should not be restricted with respect to those products of the Appellant that are made using the Appellee's used cartridges that have been sold in Japan by the patentee or sold overseas by the holder of the Japanese patent. Therefore, since the Appellee is the holder of the present patent, the Appellee may demand an injunction over the importation, sale etc. of these articles and ordering their disposal, based on the present patent. As stated above, the original decision is correct in its conclusion with respect to the points discussed above, and the reasons set forth by the attorney for the Appellant are not accepted.

Thus, this Court unanimously decides as stated in the Main Text of this decision.

The First Petty Bench of the Supreme Court of Japan

Presiding Judge: Kazuko YOKOO

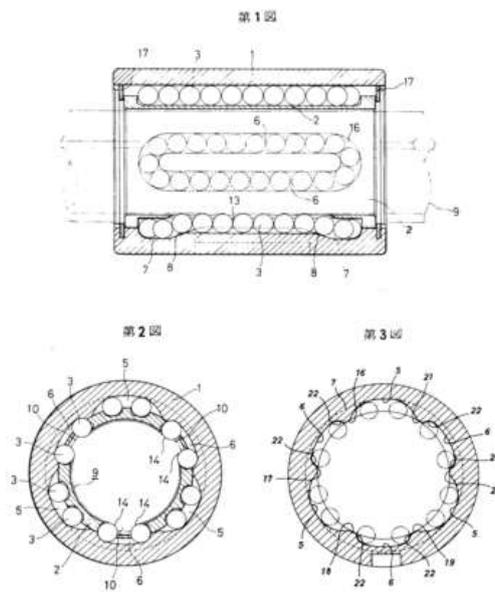
Judges: Tatsuo KAINAKA
Tokuji IZUMI
Chiharu SAIGUCHI
Norio WAKUI

[Case No. 5]
Doctrine of Equivalents

Ball Spline Bearing Case

The Third Petty Bench, the Supreme Court
Decided February 24, 1998
Case No. 1994 (o) 1083

Appellant-defendant: Tsubakimoto Seiko Co., Ltd.
Appellee-plaintiff: THK Co., Ltd.



Figs. 1-3 of Patent No. 999139

* * *

Translation of the Supreme Court Decision

MAIN TEXT

The original decision is reversed, and the present case is remanded to the Tokyo High Court.

REASON

Concerning the reasons for appeal set forth by the appellant's attorney Yohei KINOSHITA:

1. The present case is a suit demanding a payment of damages by the appellee on the grounds that the appellant infringed the patent of the appellee. A summary of the facts of the original appeal is as follows:

(1) The appellee owns a patent to an invention entitled "Endlessly Sliding Ball Spline Shaft Bearing" (filing April 26, 1971; published July 7, 1978; and registered May 30, 1980; Patent No. 999139) (this patent hereinafter will be referred to as the present patent, and the invention thereof will be referred to as the present invention).

(2) The details of the claim set forth in the specification of patent application of the present invention (hereinafter referred to as the present specification) are as follows.

"An endlessly sliding ball spline shaft bearing (hereinafter referred to as Feature E), which comprises:

an outer cylinder having torque transmitting load bearing ball-guiding grooves with a U-shaped cross-section and torque transmitting non-load bearing ball-guiding grooves with a U-shaped cross-section being slightly deeper than that of the load bearing ball-guiding grooves, the load bearing ball-guiding groove and the non-load bearing ball-guiding groove extending alternately in the axial direction within the cylindrical inner wall, the outer cylinder having an annular circumferentially directed groove at each end with the same depth as that of the deeper groove (hereinafter Feature A);

a thin wall portion and a thick wall portion formed respectively in conformity with the torque transmitting load bearing ball-guiding groove and the torque transmitting non-load bearing ball-guiding groove formed in the axial direction within the inner wall of the outer cylinder;

a joint portion between the thin wall portion and the thick wall portion having a through-hole;

a retainer with an endless track groove for allowing balls to smoothly slide into the non-load ball-guiding groove formed in the thick wall portion (hereinafter Feature B); and

a spline shaft provided with a plurality of ribs extending in the axial direction thereof, said ribs being shaped to conform with a plurality of recessed spaces formed by the balls incorporated between the retainer and said outer cylinder (hereinafter referred to as Feature C) for engaging the spline shaft with the outer cylinder (hereinafter Feature D).

(3) During the period of January, 1983 to October, 1988, the appellant had manufactured and sold a product described in the document attached as an annex of the original decision. (This product is however provided with a step of about 50 microns in height between the non-load ball-guiding groove 5 and the cylindrical portion 7 (circumferentially directed portion 7). This product will be hereinafter referred to as the appellant's product.)

2. The appellee asserted that the features of the appellant's product encompass or are equivalent to all of the constituent features of the present invention, and therefore, the appellant's product falls within the technical scope of the present invention. After considering the appellee's assertion, the judges in the original appeal acknowledged the

appellee's demand for payment of damages for infringing the present patent as follows:

1. The appellant's product encompasses Features C, D and E.
2. With respect to Feature A, according to the present invention there are elements such as "U-shaped cross-section" and "annular circumferentially directed grooves." Whereas, according to the appellant's product, the corresponding portions of these elements are "semicircular cross-section" and "cylindrical portion 7," and hence, these differ from the constituent features of the present invention.
3. With respect to Feature B, the retainer of the present invention is an integral structure providing the functions of guiding balls to move in endless circulation, retaining balls when the spline shaft is withdrawn, and forming recessed portions for guiding the rib portions of the spline shaft. Whereas, according to the appellant's product, these functions of the present invention are effected by the cooperative action of three members, i.e. the upper edge portions of the ribs formed between the load bearing ball-guiding grooves of the outer cylinder, a plate-like member 11 and a return cap 31, and hence, these differ from the constituent features of the present invention.
4. However, the appellant's product is substantially the same as that of the present invention with respect to the solution for solving the technical problem, the basic technical idea, and the effects obtained by these constituent features. Namely, with regard to the structure of the retainer constituting Feature B, there is recognized interchangeability between the present invention and the appellant's product and ease of interchangeability at the time of filing. Further, no special technical significance can be attributed in the appellant's product in terms of differences between the "U-shaped cross-section" and "annular circumferentially directed grooves" constituting Feature A and the "semi-circular cross-section" and "cylindrical portion 7" of the appellant's product. Accordingly, it is deemed reasonable to recognize that the appellant's product falls within the technical scope of the present invention.

3. However, the above decision of the original appeal cannot be averred for the reasons as follows:

(1) In determining whether or not the product made by the other party or the method employed by the other party (hereinafter referred to as "corresponding product or the like") falls within the technical scope of a patented invention in a patent infringement appeal, the technical scope of the patented invention must be determined based on the description of claims in the specification attached to the application (see Article 70(1), Patent Act). If there are elements that differ between the constitution described in a patented claim and the corresponding product or the like, the corresponding product or the like cannot be said to fall within the technical scope of the patented invention. On the other hand, even if there are elements in the constitution described in a patented claim that differ from the corresponding product or the like, the corresponding product or the like may be equivalent to the constitution described in the claim and may appropriately be said to fall within the technical scope of the patented invention if the following conditions are satisfied: (1) the differing element is not an essential part of the patented

invention; (2) the same function and results are still obtained serving the same purpose as that of the patented invention even if that element is replaced by the corresponding element found in the allegedly infringing product; (3) the above replacement would have been easily conceived by a person skilled in the art with reference to the time of manufacture of the infringing product; (4) the infringing product is not the same as the art publicly known at the time of filing for the disputed patent and it could not have been easily conceived by a person skilled in the art at the time of filing for the patent based on such publicly known art; and (5) no special circumstances exist such as the intentional exclusion of the infringing product from the scope of the patented claim during the prosecution of the patent application for the patented invention.

(1) It would be very difficult to write down claims at the time of filing in anticipation of all types of future infringing situations. Additionally, if enforcement of patent such as injunction and such by a patentee can be easily circumvented by another party by interchanging a material or a technique - a portion of the constituent features of the claim that is made clear after the filing of the patent application, the drive for invention by the public would be diminished. This not only violates the purpose of patent law to contribute to the development of industries through protection of and encouragement for invention, but also denies social justice, resulting in the breach of the concept of equity.

(2) In view of these circumstances, it should be understood that the substantive value of a patented invention should be extended from the claims to cover a technology, which is easily obtainable by a third party and is substantially identical with the constitution described in the claims, and that this could be anticipated by a third party.

(3) On the other hand, since it is not expected for anyone to obtain a patent based on technology known publicly or easily conceived by an artisan at the time of the filing of the patent application (see Article 29, Patent Act), such a technology can never be included in the technical scope of a patented claim.

(4) Once a patentee excludes a technology from the technical scope of a patented invention by intentionally excluding it from the scope of the claim during patent prosecution or committing an act that can be outwardly interpreted as doing so, the patentee cannot subsequently make assertions that would contradict this exclusion since such a contradiction would not be permitted in view of the law of prosecution estoppel.

(2) Applying this to the present case, although some differences between the claim of the present specification and the appellant's product were found with respect to Features A and B in the original appeal, the appellant's product was determined in the original appeal to fall within the technical scope of the present invention for the reasons that there was interchangeability as well as ease of interchangeability between the present invention and the appellant's product with regard to Feature B and the like.

However, it was acknowledged in the original appeal that (I) an endlessly sliding ball spline shaft bearing, constituted by an outer cylinder, a spline shaft and a retainer, was already known prior to the application of the present invention; further, a spline shaft provided with a plurality of ribs extending in the axial direction thereof, the ribs being

shaped to conform with a plurality of recessed spaces formed by the balls incorporated between the retainer and the outer cylinder (Feature C), is an ordinary shaft that has been commonly employed for a ball spline bearing; and that (II) (1) the retainer according to the present invention is an integral structure providing the functions of guiding balls to move in endless circulation, retaining balls when the spline shaft is withdrawn, and forming recessed portions for guiding the rib portions of the spline shaft; whereas, the retainer according to the appellant's product is a split type structure consisting of three plate-like members 11, a couple of return caps 31 and the ribs 25, 27 and 29 formed between the load bearing ball-guiding grooves of the outer cylinder; and the aforementioned functions of the present invention are effected in the appellant's product; by the cooperative action of these members (2) the retainer of the split type structure consisting of three plate-like members 11 and a couple of return caps 31 according to the appellant's product has already been shown in an endlessly sliding ball spline shaft bearing described in US patent No. 3,360,308, published before the filing date of the present invention; and (3) the ribs between the load-bearing ball-guiding grooves of the outer cylinder as being technically necessary in order to retain balls by means of such a slit-type retainer is apparent from a ball spline described in US patent No. 3,398,999, published before the filing date of the present invention.

According to the aforementioned decision in the original appeal, a retainer of the split type structure as well as ribs between the load-bearing ball-guiding grooves of the outer cylinder in the appellant's product were already shown in the known ball spline bearing disclosed prior to the filing date of the present invention.

Further, according to the aforementioned decision in the original appeal, the appellant's product is similar to the present invention in that the non-load bearing balls are adapted to circulate in the circumferential direction and that a plural-array type angular contact structure in which both sides of the rib portion of the spline shaft are held between a pair of load bearing balls fitted in the torque-transmitting load-bearing ball-guiding grooves, is utilized, (Features A and C). However, since it was acknowledged in the original appeal that both the circulation of the non-load bearing ball in the circumferential direction and the plural-array type angular contact structure were already described in Japanese Patent Publication S44-2361, in German Federal Republic Patent No. 1,450,060 and in US Patent No. 3,494,148, all published prior to the filing date of the present invention, it is deemed that uses of these technologies for a ball spline bearing have been publicly known prior to the filing date of the present invention.

Therefore, given that the technologies related to the ball spline bearing provided with the circulation of the non-load bearing ball in the circumferential direction and with the plural-array type angular contact structure were publicly known prior to the filing date of the present invention, the appellant's product is deemed to be simply a combination of a ball spline bearing, which is provided with the known circulation of the non-load bearing ball in the circumferential direction and with the known plural-array type angular contact structure, and a known split type retainer, because it was acknowledged in the original appeal that basically the structure of the retainer could not be distinguished by the contacting structure of the balls. Given that this combination could have been easily arrived at by an artisan without the disclosure of the present invention, it is deemed that

the artisan could have easily conceived the appellant's product at the time of the filing date of the present invention from the known art published before the filing date of the present invention. Therefore, the appellant's product cannot be said to be equivalent to the constitution set forth in the claim of the present specification, and the appellant's product cannot be said to fall within the technical scope of the present invention.

As described above, it was acknowledged in the original appeal that some of the constituent features set forth in the claim of the present specification differed from those of the appellant's product. However, only the topic of whether or not there exist any interchangeability or ease of interchangeability between the differing elements of the present invention and the constitution of the appellant's product was examined in the original appeal. Then, without discussing the relationship between the appellant's product and the known art at the time of the application of the present invention, a decision was summarily made in the original appeal to the effect that the appellant's product was equivalent to the constitution set forth in the claim of the present specification, and that the appellant's product fell within the technical scope of the present invention.

Therefore, it cannot but be said that the aforementioned original decision is erroneous in interpretation and application of the Patent Act, thus making it unnecessary to review the propriety of the decisions made in the original decision on other requirements such as equivalence, e.g. interchangeability or ease of interchangeability.

4. As explained above, the original decision is erroneous in the interpretation and application of the Patent Act. In other words, it is unlawful in terms of premature decision and deficient reasoning. It is apparent that this unlawful interpretation and application has affected the conclusion of the original decision.

As explained above, the original decision should be reversed. Further, since the aforementioned points should be fully reconsidered before the original court, this case is thus remanded. It is unanimously decided as stated in the Main Text.

The Third Petty Bench of the Supreme Court

Presiding Judge: Yukinobu OZAKI

Judges: Itsuo SONOBE
Hideo CHIGUSA
Toshifumi MOTOHARA
Toshihiro KANAYA

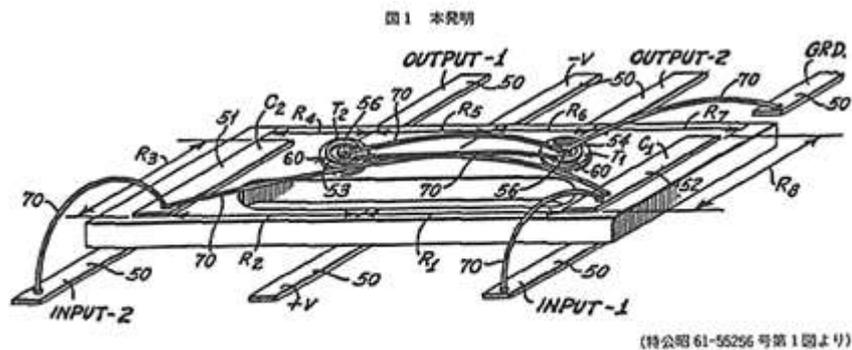
**[Case No. 6]
Invalidity Defense during Patent Infringement Litigation**

Kilby Case

The Third Petty Bench, the Supreme Court
Decided on April 11, 2000
Case No. 1998(o)364

Appellant-defendant: Texas Instruments Inc.
Appellee-plaintiff: Fujitsu Ltd.

This case relates to a patent that was granted after 29 years in 1989 from the Japanese filing date in 1960 with an expected expiration date of 2001 because the original application was filed in Japan under the old Patent Act, under which the patent term was 15 years from the date of publication for opposition purposes. The inventor was Dr. Jack Kilby. He invented solid state integrated circuits and was awarded a Nobel prize for his invention. Texas Instruments Inc. owned the patent and asked for licensing royalty from Fujitsu Ltd., but Fujitsu refused it and brought a declaratory judgement action for non-existence of infringement liabilities against TI. The very first Japanese application in this family of applications was filed in 1960 and granted as patent No. 320249, which expired in 1980.



A drawing from the disputed patent

* * *

Translation of the Supreme Court Decision

MAIN TEXT

The final appeal is dismissed, and the Appellant shall bear the costs of the final appeal.

REASON

Concerning the first, second, and fourth grounds of the appeal by the Appellant's attorneys, Minoru Nakamura, Sadao Kumakura, Koichi Tsujii, Shinichiro Tanaka, Tadahito Orita, and assistants in court, Fumiaki Otsuka, Hideto Takeuchi, Koichi Oishi, and Takeshi Deshimaru:

1. The Appellant asserts that the Appellee's manufacture and sales of semi-conductor devices specified in the list of items found in Schedules A and B attached to the first instance decision constitutes the infringement of the patent described below, and the Appellee seeks, against the Appellant, a confirmation of non-existence of liabilities with respect to the asserted patent.

The outline of facts as conclusively found by the original court is as stated below. This Court concludes that the finding of facts are justified in the light of evidence mentioned in the original decision and finds no points of illegality contrary to the Appellant's arguments.

(1) The Appellant owns Patent No. 320275 (hereinafter referred to as the "Present Patent") for an invention entitled "semi-conductor device (hereinafter the "Present Invention").

(2) The Present Invention was filed as a divisional application dated December 21, 1971 (hereinafter "Present Application") from patent application No. S39-4689 (hereinafter "Parent Application" and "Originating Invention"). This Parent Application itself was a divisional application filed on January 30, 1964 from the original application which was filed February 6, 1960 (application No. S35-3745).

(3) The Parent Application was terminally rejected because it was found that the Originating Invention could have been easily created based on publicly known inventions.

(4) The Present Invention and the Originating Invention are substantially the same.

(5) The Appellee is in the business of manufacturing and selling semi-conductor devices specified in the list of items in Schedules A and B attached to the first instance court decision.

2. Relying on the finding of facts stated above, the original court found as follows:

(1) If the Present Application were a valid divisional application from the Parent Application, the Present Application would be regarded as having been filed at the same time with the Originating Application, as provided in Article 9, paragraph 1 of the Patent Act then in effect, which has now been abolished because of Act No. 122 of 1959 (current Patent Act). However, because the Present Application does not satisfy the requirements for a divisional application, it is regarded as having been filed for the same invention as the Originating Invention on a date later than the filing date of the Parent Invention. Accordingly, it is extremely likely that the Present Patent is found to have been granted based on an application which should be rejected under Article 39(1) of the

Patent Act and is therefore invalidated.

(2) In addition, because the Present Invention is substantially the same as the Originating Invention covered by the Parent Application, which has been terminally rejected because the Originating Invention could be easily conceived of based on publicly known inventions, and therefore the Present Invention inherently has grounds for invalidity in this regards as well.

(3) To enforce rights against a third party based on the Present Patent, which is highly likely to be deemed invalid, would amount to an abuse of rights and should not be allowed.

3. The Appellant, in addition to asserting that each of the determinations made in items 2(1) and (2) in the original decision is illegal, contends that while it is necessary to consider a patent valid when determining whether articles in question belong to the technical scope of the patent during patent infringement proceedings, the original decision is illegal in that its conclusion violates laws, the determination is insufficient, and the reasoning in item 2(3) of the original decision is incomplete.

4. Despite the Appellant's arguments above, the original court's findings in items 2(1) and (2) of the original decision are sustained. Relative to this case, the decision of rejection against the Parent Application has become final and conclusive. Even if an earlier application is terminally rejected, it does not mean that the status as a prior application becomes lost (see Article 2(4) of supplemental provisions for Act No. 51 of 1998, and Article 39(5) of the Patent Act prior to its revision by the said Act). The Present Application, however, should be rejected under Article 39(1) of the Patent Act (see case No. 1991(gyotsu)139 of February 24, 1995, Second Petty Bench, Supreme Court, Supreme Court Civil Report Vol. 49, No. 2, p. 460). In addition, the Patent was granted in violation of Article 29(2) of the Patent Act because the Present Invention is substantially the same as the Originating Invention for which a decision of rejection became final and conclusive on the grounds that the Originating Invention would have been easily conceived of based on publicly known technologies. Therefore, it is clear that the Present Patent has grounds of invalidity stipulated in Article 123(1)(ii) of the Patent Act. Since no special circumstances such as a petition for correction to the patent exist, it is believed certain that the Present Patent will be invalidated (according to the court records, after the original decision was handed down on November 19, 1997, the Japan Patent Office issued an appeal department decision to invalidate the Present Patent and an appeal is pending for the cancellation of the JPO decision.)

5. We next turn to item 2(3) of the original decision. Articles 123(1) and 278 of the Patent Act provide that Appeal Examiners of the Patent Office having expert knowledge and experience in the field shall be responsible for issuing a trial decision to invalidate a patent when the patent has grounds for invalidity. When the trial decision of invalidity becomes conclusive, a subject patent is regarded as having not existed at all (Article 125, Patent Act). Until that happens, however, a patent retains its validity and enforceability, and is not invalidated with binding legal effects to third parties.

Notwithstanding, it would be improper for a court to entertain a demand for an injunction,

damages, or other reliefs based on a patent that would be, in all likelihood, found invalid, and if it is certainly foreseeable to have the subject patent invalidated by a conclusive decision once a petition for an invalidation trial is filed, for the following reasons:

(1) To accept a demand for an injunction, damages, or other reliefs based on a patent of dubious validity would, substantively speaking, give the patent owner undue advantages and others working the invention unreasonable disadvantages, in contradiction to the principle of equity.

(2) If possible, it is best to resolve a dispute quickly within a single proceeding as much as possible. If the defendant is not allowed to assert grounds for invalidating a patent as a defense against the assertion of a patent infringement before a court, such as infringement litigation before this Court, before the defendant has to go through an invalidation trial at the Japan Patent Office and obtain a conclusive decision, the defendant is then forced to initiate the invalidation trial to obtain a conclusive decision of invalidation even if the defendant does not intend to pursue such an avenue to have the patent invalidated with binding effects to third parties. This is in conflict with the principle of judicial economy.

(3) Article 168(2) of the Patent Act cannot be interpreted as requiring a stay of proceedings even if it is clear that grounds for invalidating the patent exist and it is certainly foreseeable that the patent concerned would be invalidated as discussed above.

Accordingly, a court considering a patent infringement should be capable of adjudicating whether or not there exist sufficient reasons to invalidate the patent, even prior to the issuance of a final decision invalidating the patent. As a result of court proceedings, if it is clear that the patent in dispute has grounds for invalidation, a demand for an injunction, damages, etc. based on the patent right should be deemed as an abuse of patent rights and should not thus be allowed unless there are special circumstances. Such interpretation is not contrary to the purposes of the patent system. Earlier decisions of the Court of Cassation²² which contradict this interpretation, including Case No. 1903(re)2662 of September 15, 1904 (Criminal Record No. 10, p. 1679) and Case No. 1916(o)1033 of April 23, 1917 (Civil Record No. 23, p. 654) are hereby reversed to the extent that is contrary to the above.

6. Thus, it is clear that the Present Patent has grounds of invalidity and no other circumstances exist such as the existence of a petition for correction of the Present Patent, which might warrant a different conclusion, the original decision accepting the Appellee's argument that the Appellant's claim of damages based on the Present Patent would be an extension of rights as an abuse of rights is affirmed. This is not contrary to precedents referred to in the Appellant's arguments. Further, the Appellant contends that errors exist in the selection and evaluation of the evidence and the finding of facts, which are the sole discretion of the original court, and the Appellant criticizes the original decision based on its own opinions, but such criticisms cannot be accepted.

Other Grounds for the Final Appeal:

²² The Court of Cassation is the predecessor of the current Supreme Court of Japan, which existed under the previous constitution.

The finding of facts and determination of the original court are affirmed in light of the evidence and records mentioned in the original decision. Also, the Appellant merely contends that errors occurred in the conduct of proceedings before the original court and errors exist in the selection and evaluation of the evidence and the finding of facts, which are the sole discretion of the original court; and the Appellant criticizes the original decision based on its own opinions; or the Appellant argues injustice in court's control of proceedings, which belongs to the discretion of the original court, but such criticisms cannot be accepted.

Accordingly, this Court unanimously decides as stated in the Main Text.

Presiding Judge: Toshihiro Kanatani
Judges: Hideo Chikusa
Toshifumi Motohara
Masamichi Okuda

[Case No. 7]
Injunction and FRAND declaration

Apple v. Samsung Case

The Grand Panel of the Intellectual Property High Court
Decided on May 16, 2014
Case No. 2013(ne)10043

Appellant-defendant: Samsung Electronics Kabushiki Kaisha
Appellee-plaintiff: Apple Japan Godo Kaisha

SUMMARY

In a DJ (declaratory judgement) action filed by Apple, Samsung Electronics' Japanese patent was found valid and infringed by some Apple products. The liability for damages was assessed under the FRAND declaration Samsung made when it entered the Japanese patent into the UMTS technical standards for mobile communications. The amount of reasonable royalty was determined under FRAND conditions to be JPY 9,955,854 or about US\$82,000. Also, in two accompanying decisions that resulted from preliminary injunction actions, it was concluded that Samsung's demand for injunctions on Apple products amounted to abusive use of rights and injunctions are not allowable due to the FRAND declaration. These decisions have become final because Apple and Samsung settled to abandon all litigation in Japan.

FACTS

Apple Japan (a Japanese subsidiary of Apple Inc.) sought a declaratory judgment of non-existence of liability under a Japanese patent to Samsung Electric K.K. (a Japanese subsidiary of Samsung Electronics Co., Ltd.), Japanese Patent No. 4642898, entitled "Method and apparatus for transmitting/receiving packet data using pre-defined length indicator in a mobile communication system" (corresponding to US7675941 (B2)). Samsung Electronics filed two lawsuits against Apple Japan seeking preliminary injunctions before the Tokyo District Court in April 2011 and December 2012. Apple Japan's DJ action in September 2011 was in response to these lawsuits. The IP High Court issued three decisions separately for each of these lawsuits on May 16, 2014.

In the declaratory judgment action, four Apple products were subjects of the dispute: (1) iPhone 3GS, (2) iPhone 4, (3) iPad Wi-Fi+3G, and (4) iPad 2 Wi-Fi+3G. The products in dispute comply with UMTS Standards prepared by the 3rd Generation Partnership Project (3GPP), a non-governmental project set up among several standard setting organizations (SSOs). One of the SSOs involved was the European Telecommunication Standards Institute (ETSI). ETSI has an intellectual property rights policy. Samsung followed this policy and notified ETSI that intellectual property rights including the patent in dispute might be essential under the UMTS Standards with a declaration that it was prepared to grant irrevocable licenses for fair, reasonable and non-discriminatory

("FRAND") terms and conditions.

There were seven issues of contention: (1) whether claim 8 of the patent covers the Apple products, (2) whether the Apple products indirectly infringe claim 1 (method claim) of the patent under Article 101(4) and (5) of the Patent Act, (3) whether claims 1 and 8 are invalid, (4) whether the patent is exhausted with respect to the Apple products in dispute, (5) whether there was a license between Apple and Samsung on the basis of the FRAND declaration of Samsung, (6) whether the claiming of damages by Samsung amounted to abusive use of rights, and (7) the amount of damages.

As to the question of patent exhaustion (issue 3), Apple argued that the base-band chip used in the products in dispute either realizes the product of claim 8 (device for transmitting data in a mobile communication system) of the disputed patent or is used only for the purpose of realizing the invention recited in claim 1 (method for transmitting data in a mobile communication system), and therefore, this constitutes direct infringement or indirect infringement. According to Apple, Intel Corp. sold such chips to Apple under a license from Samsung and the Samsung patent had exhausted with respect to the Apple products which use the Intel chips sold under the Samsung's license. Samsung noted that a license agreement with Intel ended on June 30, 2009, and since then, Intel did not have any authorization from Samsung with respect to the patent in dispute.

Also, in the preliminary injunction lawsuits, two issues were raised: (1) whether the Apple products mentioned above infringe claim 8 of the patent, and (2) whether Samsung's demand for injunctions amounts to abusive use of rights.

HELD

In the declaratory judgment action, the Grand Panel of the IP High Court found that products 2 and 4 mentioned above fall under the scope of claim 8, whereas products 1 and 3 do not, and the five grounds of invalidity Apple raised are moot. Thus, the patent in dispute was found to be valid and infringed.

As for the exhaustion theory Apple argued, since Intel did not have a valid license from Samsung and such license, in any case, would not have covered Intel's subcontracting the manufacture of the chips to a third party and subsequent sale of the chips, the Court concluded that there are no grounds for Apple's arguments concerning patent exhaustion. Further, the Court noted that even if it is assumed that a license existed between Samsung and Intel and such license covered the chips in question, the enforcement of the Samsung patent would not be restricted against the manufacture and sale of the Apple products using the Intel chips under the BBS Supreme Court decision (July 1, 1997) because the Apple products that would fall within the scope of the Samsung patent were created using the chips which do not fall, by themselves, within the patent scope.

The Court also considered the meaning of the FRAND declaration under French law because ESTI IPR Policy is governed by the laws of France according to its Article 12, and concluded that merely being "prepared to grant" does not give rise to an actual license. No license agreement was established even if Samsung made the FRAND declaration.

Also, the Court held that abusive use of rights may be found for any amount of damages beyond a reasonable royalty under FRAND terms unless special circumstances are shown to exist, such as lack of willingness to take a license on the part of the other party, but no abusive use would be found if a demand for damages remains within such reasonable royalty. Even if the patent is declared essential to the technical standards, rights to obtain a reasonable royalty under the FRAND terms should not be restricted solely because the patented technology belongs to the standards. The Court then calculated the damages award to be JPY 9,955,854 or about US\$ 100,000. In the published version of the decision, important numbers are redacted to protect trade secrets. In the course of calculation, the Court noted that both parties mentioned the cumulative royalty of 5% with respect to the UMTS Standards, and used this figure. Also, the Court noted that 529 patent families are involved in the UMTS Standards, and that the Samsung's patent in dispute is not considered particularly important compared with other patents. The Court divided the cumulative royalty by 529.

For the preliminary injunction actions, the IP High Court concluded that Apple's Products 2 and 4 infringed the Samsung Patent, but demanding preliminary injunctions would be abusive use of rights, and injunctions are not allowable in view of the FRAND declaration.

COMMENTS

These decisions marked the ninth instance of decisions issued by the Grand Panel since the IP High Court started in April 2005. The IP High Court can choose a case and have it reviewed by the Grand Panel at its discretion.

The original district court panel headed by Judge Ichiro Otaka had summarily rejected Samsung's claims for both preliminary injunctions and damages as abusive use of rights, which is prohibited by Article 1(3) of the Civil Code, although the panel found the patent in dispute essential, valid and infringed. In the decision for the DJ action, the Court stated that: "The defendant violated an obligation based on the principles of good faith and trust to provide material information during the preparatory stage of a license agreement on FRAND terms concerning the patent in question and to faithfully negotiate. Also, the defendant continues to maintain, as of the date of closing arguments, petitions for preliminary injunction orders against importation and sale, etc., based on the present patent. Furthermore, it was more than two years later that Samsung reported the existence of the disputed patent to the ETSI after Samsung presented a request for technical changes that were eventually adopted as part of the technical standards. In consideration of these circumstances as well as other events that occurred during the licensing negotiations concerning the present patent, it is not allowed, as it would constitute an abusive use of rights, to enforce the right to obtain damages based on the present patent on Products 2 and 4."

The current IP High Court decision is more nuanced and gives balanced considerations to many different factors and theories, such as the nature of the IPR policy of an SSO and patent exhaustion. The calculated award of damages, about US\$100,000, is not large by any measure, but if we think of the fact that mobile phones and many tablets now use the

third generation mobile communication standards, and 3G communication is only one of many features the devices have, the award of damages that comes from only two Apple products may have to be small. In the published version of the court decision, while specific numbers used for damaged calculation are redacted, there is no sign of the court's willingness to mark up an award because this is after all an infringement case.

When the IP High Court announced that the Grand Panel would review this case, it also solicited public comments on the issue of FRAND or RAND declarations and enforceability of a patent. This was the very first time any Japanese court solicited public comments on a civil case. Fifty-eight briefs were submitted to the two law firms handling these cases. As Japan does not have an amicus brief system, public comments are collected by law firms and are then submitted to the court as part of documentary evidence. The IP High Court spent two pages of its 163-page decision summarizing the submitted comments and reflecting on them.

[Case No. 8]
Damages and New Interpretation of Article 102(2)

Waste Disposal Device Case

The Grand Panel of the Intellectual Property High Court
Decided on February 1, 2013
Case No. 2012(ne)10015

Appellee-defendant: Aprica Children's Products Inc., a Japanese corporation
Appellant-plaintiff: Sangenic International Limited., a UK corporation

Summary

This case before the IP High Court is related to the interpretation of Article 102(2) of the Patent Act.

The Tokyo District Court found an infringement, but reasoned that in order for the patentee (Sangenic) to enjoy the benefit of Article 102(2) (presumption of damages equaling profits the defendant enjoyed), it had to work the patented invention following precedent. The District Court pointed out that the patentee, who did not even import into Japan its own products (waste cassettes for used disposable diapers) made outside Japan, could not rely on Article 102(2) and instead used Article 102(3) (reasonable royalty). The amount of damages the District Court awarded was JPY 21 million or about US\$ 173,000. The plaintiff appealed for a larger award of damages.

Article 102(2) is to presume that the profit the infringer enjoyed as damages the patentee suffered in view of difficulties in proving the amount of damages the patentee actually suffered. The sole Japanese sales agent, Kombi Corporation, imported and sold products that Sangenic manufactured outside Japan, and Sangenic did not do any activities in Japan that would fall under the definition of working of the invention stipulated in Article 2(3)(i) of the Patent Act.

The plaintiff, Sangenic, previously had a sales agreement in Japan with the predecessor of the defendant, Aprica, before the predecessor company went into bankruptcy proceedings, and the agreement was abandoned. Kombi Corporation, which is not directly involved in the present litigation, then became the sales agent in Japan.

The Grand Panel of the IP High Court, which consists of the four presiding judges of all four divisions plus one less senior judge, noted that while the patentee did not work the patent invention in Japan, it did suffer from the consequences of the patent infringement in Japan, and Article 102(2) is designed to help such patentee. The IP High Court concluded that there is no explicit requirement that the patentee has to practice the patented invention in order for Article 102(2) to be applicable. This is a complete reversal of the lower court decision and precedent in which the working of the invention by the patentee was required. Using Article 102(2), the IP High Court increased the damages award to JPY 148 million or about US\$ 1.2 million, or approximately seven

times higher than the award determined by the original court.

Subsequently, the Supreme Court rejected a petition for acceptance of final appeal, and this Grand Panel decision is now final and conclusive.

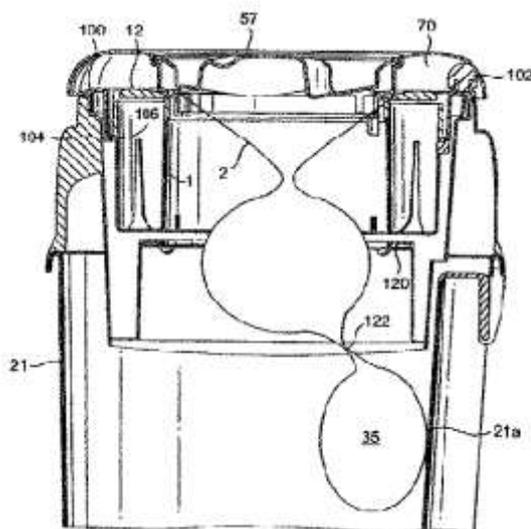


Fig. 4 of Patent No. 4402165

Held

In the following, important statements made in the Grand Panel decision are quoted:

[Quoted from page 5 of the decision]

The plaintiff has a patent related to a waste container cassette and a storage device, and a design registration related to a sanitary-waste receptacle. It used to have a sales agent agreement with Aprica Kasai K.K (the old Aprica), which is a predecessor of the defendant. The plaintiff asserted that the defendant infringed its patent and design registration, and went against the clause promising stopping of usage of the plaintiff's IP rights found in the sales agent agreement by importing, selling, etc. of products in dispute. The plaintiff asked for an injunction to stop the acts of infringement and disposal of the disputed products based on Article 102(2) of the Patent Act, Article 39(2) of the Design Act, and the above-mentioned agreement, and a damages award of JPY 206,729,983 (about JPY 207 million or about US\$ 1.7 million) as well as interest of 5% annually as provided in the Civil Code.

[Quoted from page 6 of the decision]

The original decision of the Tokyo District Court determined that: (1) the allegedly infringing products satisfied all features of Present Invention 1 and thus belonged to its technical scope; and (2) the present patent has no grounds of invalidity such as lack of novelty or inventive step and a violation of the clarity requirements provided in Article

36(6)(ii) of the Patent Act, granting an injunction over the importation, sales, etc. of the infringing products. It also determined that it was not possible to find that the plaintiff worked the present patented invention in Japan, and therefore the prerequisite for the presumption provided in Article 102(2) of the Patent Act was not satisfied, so that the presumption is not applicable and the damages calculation had to be made based instead on Article 102(3) (reasonable royalty) to arrive at the damages award of JPY 18,139,152 or JPY 21,139,152 (about JPY 21 million or US\$ 173,000) including the attorney's cost of JPY 3 million plus annual interest of 5% as provided in the Civil Code. Claims based on the design registration were rejected because the infringing products were found dissimilar to the registered design.

[Quoted from pages 23-25 of the decision]

(2) Concerning point 7 in dispute (damages)

(a) As discussed above, since the defendant infringed rights based on the present patent with respect to Present Invention 1 by importing, selling and offering to sell products in dispute, the defendant is liable for damages the plaintiff suffered.

(b) Calculation of damages based on Article 102(2)

While the plaintiff asks for the application of Article 102(2) for damages calculation, the defendant argues that because the plaintiff does not work the patented invention within Japan, Article 102(2) is not applicable, and even if Article 102(2) is assumed applicable, circumstances show that the presumption should be denied. This court considers that the defendant's arguments lack grounds and it is possible in the present case to use Article 102(2) of the Patent Act to calculate damages the plaintiff has suffered, and no circumstances are found to deny the presumption provided by this article. The reasons for this is as follows:

(a) Requirements for the application of Article 102(2)

Article 102(2) of the Patent Act provides that: "Where a patentee or exclusive licensee claims, from a person who has intentionally or negligently infringed the patent right or exclusive license, compensation for damages caused to him by the infringement, the profits the infringer gained through the infringement shall be presumed to be the amount of damages suffered by the patentee or exclusive licensee."

Under the principles provided in the Civil Code, in order to recover damages the patentee suffered due to a patent infringement, the patentee has to argue and prove the causation relationship between the damages and the act of patent infringement as well as the occurrence of damages and their amount. It is difficult, however, to prove such facts and as a result, the patentee may not be properly compensated for damages. Thus, if the infringer has benefited from the acts of infringement, the amount of profits the infringer enjoyed is presumed as the amount of damages the patentee suffered under Article 102(2) of the Patent Act so as to ease the above-mentioned difficulties associated with establishing facts. As just described, Article 102(2) is meant to ease such difficulties associated with proving the amount of damages, and what it does is to provide a

presumption only. There would be no rational reasons to set requirements for the application particularly high.

Therefore, if circumstances exist that the patentee would have obtained profits but for acts of infringement done by the infringer, Article 102(2) of the Patent Act should be applicable, and a variety of facts such as differences between the manner the patentee conducted business and that of the infringer should be considered as factors to deny the presumed amount of damages. As will be discussed in the following, it should not be a requirement for the application of Article 102(2) that the patentee works the subject patented invention.

[Quoted from pages 25-27 of the decision]

(c) Determination

In accordance with the above-mentioned finding of facts, the plaintiff has a sales agreement with Kombi and based on this agreement, Kombi is acting as sales agent for the plaintiff's products in Japan, and the plaintiff sells (exports) cassettes that the plaintiff manufactures in the U.K. and that falls under Present Invention 1 to Kombi. Kombi sells these cassettes to general consumers in Japan. Thus, the plaintiff can be said to sell its products to consumers in Japan through Kombi. The defendant imports and sells the allegedly infringing products in Japan, and it is in a competitive relationship with the plaintiff as well as Kombi. It is also recognized that the sales of the plaintiff's cassettes have decreased in Japan due to the infringing acts (sales of infringing products) of the defendant.

In the light of the above circumstances, it is recognized that the plaintiff would have obtained profits but for the infringing acts of the defendant, and therefore, the applicability of Article 102(2), Patent Act, should not be denied for the calculation of the plaintiff's damages.

Against this, the plaintiff argues that because Article 102(2), Patent Act is not to presume the occurrence of damages itself, and because of the principle of territoriality, it is required for the patentee to work the patented invention in Japan. The defendant argues that since the plaintiff does not sell its cassettes of Present Invention 1 in Japan, Article 102(2) should not be applicable for the calculation of the plaintiff's damages.

The defendant's above arguments, however, cannot be adopted. Article 102(2), Patent Act does not explicitly require that the patentee has to work the patented invention, and as mentioned above in (a), Article 102(2) is meant to reduce the difficulties associated with the proof of damages. Also, the clause merely provides a presumption, and it would be unreasonable to impose particularly strict requirements for the application of the clause. In view of these considerations, the fact that the patentee works the patented invention is not a requirement for the applicability of the clause. As mentioned above in (a), if the patentee could have obtained profits but for infringing acts of the infringer, Article 102(2) is applicable.

In the present case, therefore, Article 102(2) can be applied regardless of whether the above-mentioned acts done by the plaintiff falls under "working" defined in Article 2(3) of the Patent Act, Article 102(2) is applicable. Such interpretation does not extend the effectiveness of the present patent to the outside of Japan and is not against the principle of territoriality.

**[Case No. 9]
Damages (Article 102(2) and Unjust Enrichment)**

Kirimochi Case (*Kirimochi* means rice cakes cut into rectangles)

Tokyo District Court, 40th Division (presiding judge: Tamotsu Shoji)
Decided on April 10, 2015
Case No. 2012(wa)12351

Plaintiff: Echigo Seika Co., Ltd.
Defendant: Sato Foods Co., Ltd.

Patent No. 4111382 (filed October 31, 2002 and registered April 18, 2008)

Claim 1 of the patent reads as follows:

1. A small piece of cut rice cake that is eaten after being grilled by placing it on a grill and that has a rectangular contour shape, wherein a side surrounding surface which is a standing face around an flat upper surface of the rice cake, which is not a bottom placing surface nor the upper surface, has one or more slit portions or groove portions having a length in a circumferential direction which is defined as a direction along the standing face, wherein the slit portions or groove portions are provided in a rectangular annular shape which continuously goes one turn in the circumferential direction which is defined as a direction along the standing face or are provided on two opposite side faces of the surrounding surface which is standing, so that when the rice cake is grilled, a portion above the slit portion or groove portion is raised from a portion below, so as to suppress blowoff to the outside by swelling and deforming in a manner as if the swelling content is held between upper and lower grilled plate-like portions like a sandwich.

The invention is to give a nice uniform shape when a small piece of relatively hard rice cake is heated on a grill. When small pieces of rice cake are heated on a grill, such pieces swell in random fashion and blow off in different directions. This invention controls the swelling and gives the grilled pieces somewhat more uniform shapes.



Source: <http://www.unme-kome.jp/>

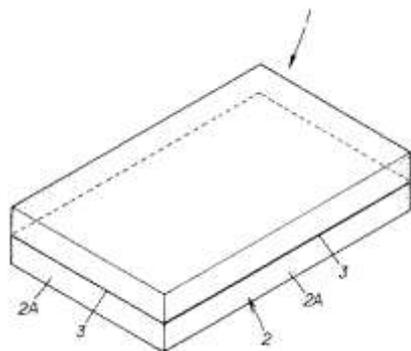
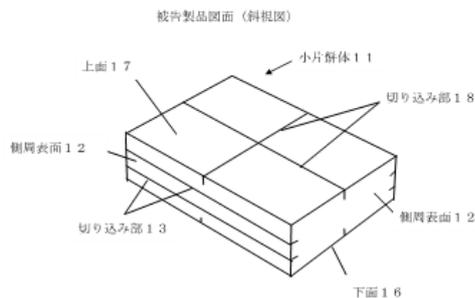


Fig. 1 of the disputed patent



Representative drawing of infringing product

Calculation of Damages

Damages under Article 102(2) and Unjust Enrichment

The sales of the defendant's disputed products were found to be JPY 1.06 billion between May 2008 and October 2008, and JPY 23 billion between November 2008 and April 2011. No disputes existed that the percentage figure of marginal profits of the defendant's products is 30%. The defendant argued that the contribution factor should be 1.5% while the plaintiff argued for 15%. After a detailed analysis, the court concluded that the contribution factor should be 10%.

Total of damages award was JPY 692 million (= 23 billion x 0.3 x 0.1).

The court noted that a calculation under Article 102(3) (reasonable royalty) would clearly lead to a figure that is much less than the above and would not use Article 102(3) in the present case. The court also awarded the plaintiff attorney costs of JPY 69 million. Under normal circumstances, courts tend to award approximately 10% of damages as attorney costs based on their discretionary power.

The sales prior to October 2008 are subject to the statute of limitation of three years for damages, but a claim for unjust enrichment can be made up to ten years. The calculation of unjust enrichment is done on a reasonable royalty basis. The court determined that the royalty rate should be 2% because of the rate suggested by an industry association in Niigata Prefecture, where the plaintiff and defendant are located, and calculated the amount to be JPY 21 million (= 1.06 billion x 0.02).

The total of damages awarded to the plaintiff amounted to JPY 782 million plus 5% annual interest provided in the Civil Code for the period from May 29, 2012 up to the date of payment.

[Case No.10]
Damages (Article 102(2) and Unjust Enrichment)

Animal Urine Disposal Material Case

Tokyo District Court, 46th Division (presiding judge: Koji Hasegawa)
Decided on March 20, 2014
Case No. 2012(wa)24822

Plaintiffs: Peparlet Co., Ltd. and Unicharm Corp.
Defendant: K.K. Daiki

Patent No. 2534031 (filed December 29, 1994 and registered June 27, 1996)

Claim 1 of the patent reads as follows:

1. A animal urine disposal material having water absorbability, which is coated with a surface layer that exposes the color of a core portion upon absorption of urine by the disposal material.

Calculation of Damages

Unjust enrichment

The court calculated the amount of unjust enrichments as JPY 12.5 million (the sales of JPY 416 million by the defendant multiplied by a royalty of 3%). The statute of limitation for ordinary damages is three years and that for a claim of unjust enrichment is ten years. The sales figure was for the seven years prior to the three years of the statute of limitation for damages and up to the ten years statute of limitation for unjust enrichment. Because the defendant benefitted by the non-payment of royalty associated with the patent infringement, unjust enrichment is normally calculated based on a reasonable royalty rate. The 3% royalty rate was taken from a statistical report in the area of pulp and paper manufacturing. The defendant argued that the royalty rate should be 0.5% and the contribution factor (contribution of the patented invention toward the entire product) should be 10%. The court did not use the contribution factor in the above calculation.

Damages

For ordinary damages, the court determined that the defendant's profits associated with products that infringed the patent amounted to JPY 6.3 million. The defendant argued that the contribution factor was 10%, but the court found that it should be 50% instead. The court did not give any specific arguments or show any basis for this 50% figure. Thus, the amount of damages was JPY 3.2 million.

The total awarded to each of the two plaintiffs was JPY 16.7 million plus 5% annual interest provided under the Civil Code from September 8, 2012 (the date on which the complaint was filed with the court) up to the payment.

[Case No. 11]
Damages (Article 102(1))

Battery-Powered Alarm Device Case

Tokyo District Court, 29th Division (presiding judge: Shigeru Osuga)
Decided on March 26, 2014
Case No. 2011(wa)3292

Plaintiff: Hochiki Corp.
Defendant: New Cosmos Electric Co., Ltd.

Patent No. 3895646 (filed June 16, 2002 and registered December 22, 2006)

Patent Claim 1 of the patent:

1. A battery-powered alarm device which operates on a battery and issues alarms when abnormality is detected in a monitoring area;
 - a voltage monitoring unit for monitoring whether or not a voltage of the battery drops below a predetermined voltage;
 - an indicator lamp means for illuminating or blinking in order to notify lowering voltage if the voltage of the battery monitored by the voltage monitoring means is below the predetermined voltage;
 - a confirmation request reception means for receiving a confirmation request for the voltage of the battery it is confirmed whether or not to drop below a predetermined voltage from a user of the monitored area; and
 - a voice output means for outputting to the monitoring area a voice message encouraging replacement of the battery when the voltage of the battery monitored by the voltage monitoring means is below the predetermined voltage and if the confirmation request reception means receives the confirmation request.

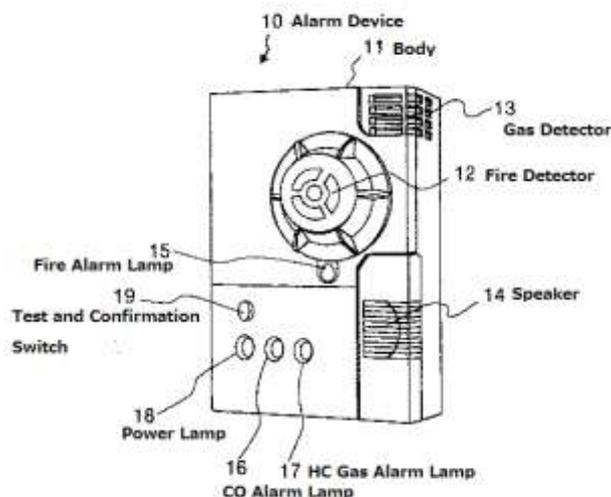


Fig. 1 of the patent in dispute

The patent in dispute (Patent No. 3895646) was initially filed in the name of Hochiki (plaintiff and a Japanese company) alone, but was jointly owned by Hochiki and Tokyo Gas (the largest gas service provider in Japan) since October 2003. In February 2012, however, a registration was made to the effect that Hochiki again became the sole owner of the patent. This case was filed by Hochiki as the plaintiff against another Japanese alarm and detector manufacturer, New Cosmos.

Calculation of Damages

The patentee asked for damages on the basis of all three types of provisions in the Patent Act: Paragraphs 1-3 of Article 102 of the Patent Act.

The court found that Article 102(1) is applicable because it yields the highest damages award of JPY 168 million. The court found that the amount which the plaintiff could not sell even if there were no infringement would be 70% of the defendant's products because there are other competing products available on the market, the plaintiff's marketing capability may be limited, and the nature of the defendant's products may be different or superior to the plaintiff's products. The court used the following equation: The amount of damages = (average profit per unit of the plaintiff's products) x (1 - 0.7) x (the number of defendant's products).

The defendant argued that the contribution factor of 20 or 10% should be considered, but the court rejected this argument because such factor is included in the 70% figure for the amount that the plaintiff could not sell.

The court noted that while the marginal profit should be used for the purpose of Article 102(1), the specific fixed cost may be deducted from the marginal profit to find the average profit in an exceptional case like the present case. The court did not disclose the profit figure and the number of the defendant's infringing products in the published version of the court decision.

Then the court used Article 102(2) and determined that it yields a damages award which is smaller than the above-mentioned damages.

The court then went on to try Article 102(3). The court relied on a book entitled "Royalty Rates (5th ed.)" published by the Japan Institute of Invention and Innovation in 2003 and determined the applicable royalty rate of 5%. Based on this percentage and the sales figure of JPY 2.3 billion, the damages under Article 102(3) was calculated to be JPY 59 million, considering that the patent in dispute was also owned by Tokyo Gas for much of the period infringement and Tokyo Gas is not asking for damages.

The court concluded that the result of calculation made under Article 102(1) would be most appropriate as damages for the plaintiff. The court awarded JPY 168 million plus annual interest of 5% provided in the Civil Code for the period from the dates specified elsewhere in the decision up to the payment.

Discussion Point:

Under the Japanese system, a patentee is entitled to recover actual damages it suffered from infringement. Statutory provisions are not set out for giving an extra compensation beyond such damages. In Japan, unlike the US, we do not have a mark-up scheme for willful infringement.²³ In the above case, however, the court used a royalty rate of 5% for calculation under Article 102(3) because this figure was found in a monograph that discusses a compilation of licensing data in different technical areas. Is it really appropriate, or fair to the patentee, to use such rate for infringement cases in which the validity of the patent has been scrutinized several different ways beyond patent office examination and the patent has actually been infringed? Under a license agreement, the validity of the patent is not normally contested, and the patentee does not risk the loss of the patent due to unexpected grounds for invalidity and litigation costs which may be lost if it loses the infringement case. If it is not appropriate to rely on published data, what figure should be used?

²³ In the U.S., statutory law permits a court to triple the amount of the actual/compensatory damages to be awarded to a prevailing plaintiff if patent infringement is determined to be willful (so-called "treble damages").