

MS Symposium on Law and  
Economics of IP  
at Hitotsubashi Univ.

# Exhaustion of IP Rights

- From the Viewpoint of Law -

Feb. 18, 2008

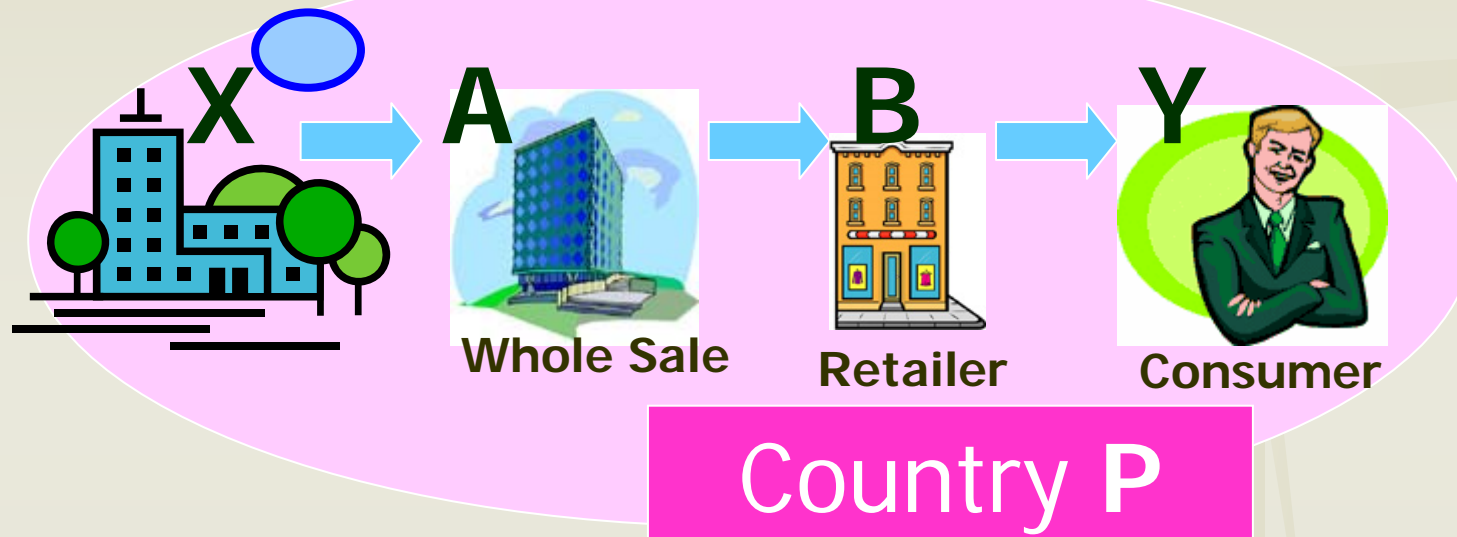
Katsuya Tamai

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# Today's Content

- Introduction -Concept of "Exhaustion"
  1. Modification of Products
    - Case of *Inc Cartridge/ Canon*
    - J.S.C. Decision on Nov. 8, 2007
  2. Vertical Trade Restriction
  3. International Exhaustion of IPRs
- Conclusion

# What is “Exhaustion” of IPRs ?




Transaction b/w A & B; B & Y  
...not regarded as infringement

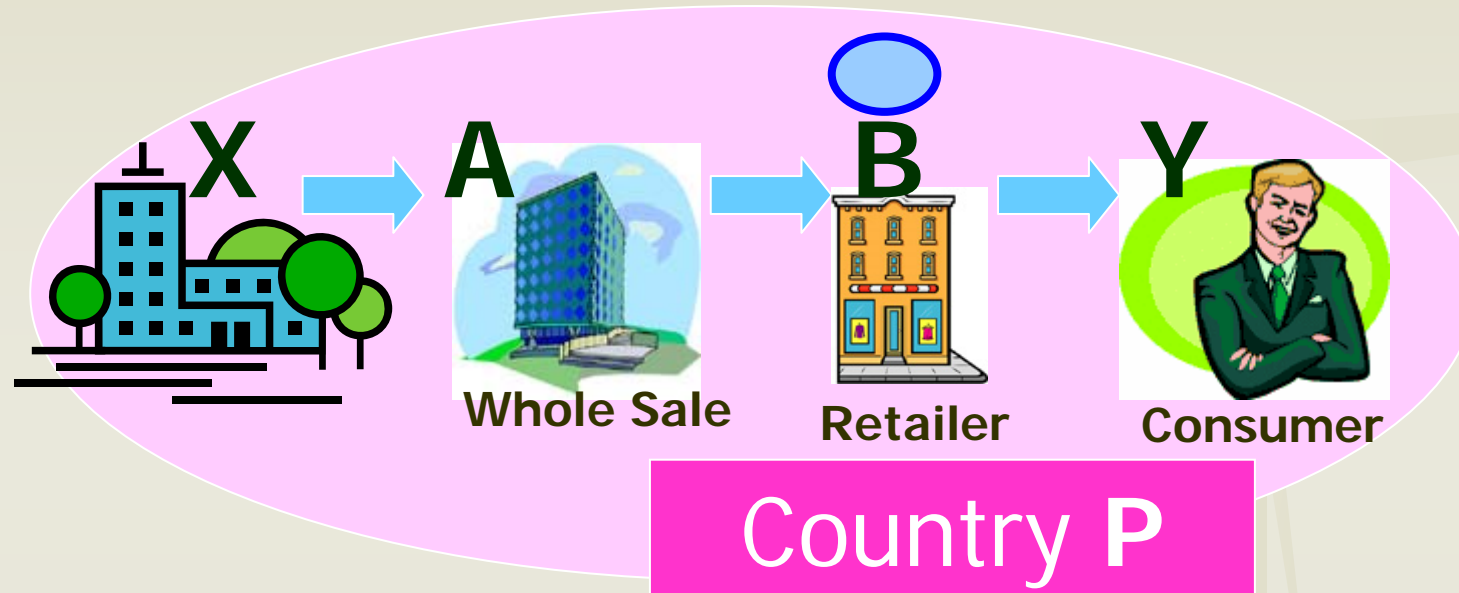
*Why ?*

No stipulation to be applied in the statute

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# Modification of Products



If B modifies the product, may B still transact it to Y?

If it is not always o.k., what is the borderline?

# The Case *Inc Cartridge/*

- Product in Question: Replacement Ink Cartridge of Inkjet Printer
- Patent: Technology to Keep Ink in Cartridges
- Canon (Plaintiff) vs. Brother (Defendant)
- Alleged Infringement:
  - collect used cartridges
  - clean up cartridges
  - refill new ink,
  - sell them at a lower price.
  - partly manufacture in China



# Precedents at Lower Courts

Tokyo Dist. Ct., Apr. 24, 2007 – Disposable camera

IP High Ct., Jan. 31, 2006 – Inc cartridge/ CANON

Tokyo Dist. Ct., Dec. 8, 2004 – Inc cartridge/ CANON

Osaka Dist. Ct., Nov. 26, 2002

Tokyo Dist. Ct., Nov. 30, 2001

Tokyo Dist. Ct. Nov. 29, 2001 - Acyclovir

Tokyo Dist. Ct., Aug. 31, 2000 – Disposable camera

Tokyo Dist. Ct., Jun. 6, 2000 – Disposable camera;  
preliminary injunction

Osaka Dist. Ct., Feb. 3, 2000; O. High Ct., Dec. 1, 2000

Tokyo Dist. Ct., Nov. 29, 1999

Tokyo Dist. Ct., Sep. 22, 1999

Osaka Dist. Ct., Apr. 24, 1998

# Decisions at the Case

1. Tokyo District Court,  
Dec. 8, 2004  
-in favor of the Defendant
2. IP High Court (Enlarged Body),  
Jan. 31, 2006  
-vacate and issued Injunction
3. Supreme Court, Nov. 8, 2007



# J. S. C. Decision, Nov. 8, 2007

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## ■ Exhaustion in General

“ The use of a patent is restricted under exhaustion doctrine only for the products licensed in Japan. When it is recognized that a product that is not **identical** to the [original] patented product is newly reconstructed by modification or replacement of any part of the product licensed in Japan, the patent holder may enforce the right.”  
(emphasis added)

# J. S. C. Decision, Nov. 8, 2007

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## ■ Test for Lack of “Identity” or Existence of “Reconstruction”

“[S]uch new reproduction of the patented product is to be recognized after the comprehensive study of the patented product’s attribute, content of the invention in question, details of modification/replacement and actual situation of the relating transaction [in the market], etc.”

# J. S. C. Decision, Nov. 8, 2007

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## ■ Elements to be considered:

1. Attribute of the Patented Product
  - The product's function, structure, material, intended use, durable period, mode of use
2. Content of patented invention
3. Details of modification and replacement
  - the patented product's actual status at the time of modification, etc., content and level of modification, usable life of the changed parts, technical function and economic value as a part of the patented product
4. Actual Situation of the Relating Transaction in the Market
5. "etc."

# Repair & Reconstruction

Repair: permissible

Reconstruction: forbidden

- “No element, **not itself separately patented**, that constitutes one of the elements of a combination patent is entitled to patent monopoly, however essential it may be to the patented combination and no matter how costly or difficult replacement may be.”

*Aro Manufacturing Co. v. Convertible Top Replacement Co.*, 365 U.S. 336, 345 (1961)

# Similarity to German Case Law

1/2

Repair (Reparatur): permissible

Reconstruction (Neuherstellung): forbidden

- Replacement of wearing parts “which are usually expected to have to be replaced during the life of the device”: *assumed repair*

However...

- Replacement of parts which „realizes (*verkörpert*) essential elements (*wesentliche Elemente*) of the inventive concept”: *maybe reconstruction*
- Fed. Sup. Ct. (BGH), 4. May 2004, BGHZ 159, 76 [90-92] = GRUR 2004, 758, 762 (II 3. b)  $\beta$

# Similarity to German Case Law

2/2


- Because “the technical or economic advantage of the invention is realized once again by the replacement,” it is “not to be able to say that the patent holder has already received the benefit (Nutzen) due to him by putting the device in the market”

Decision: in favor of the patent holder

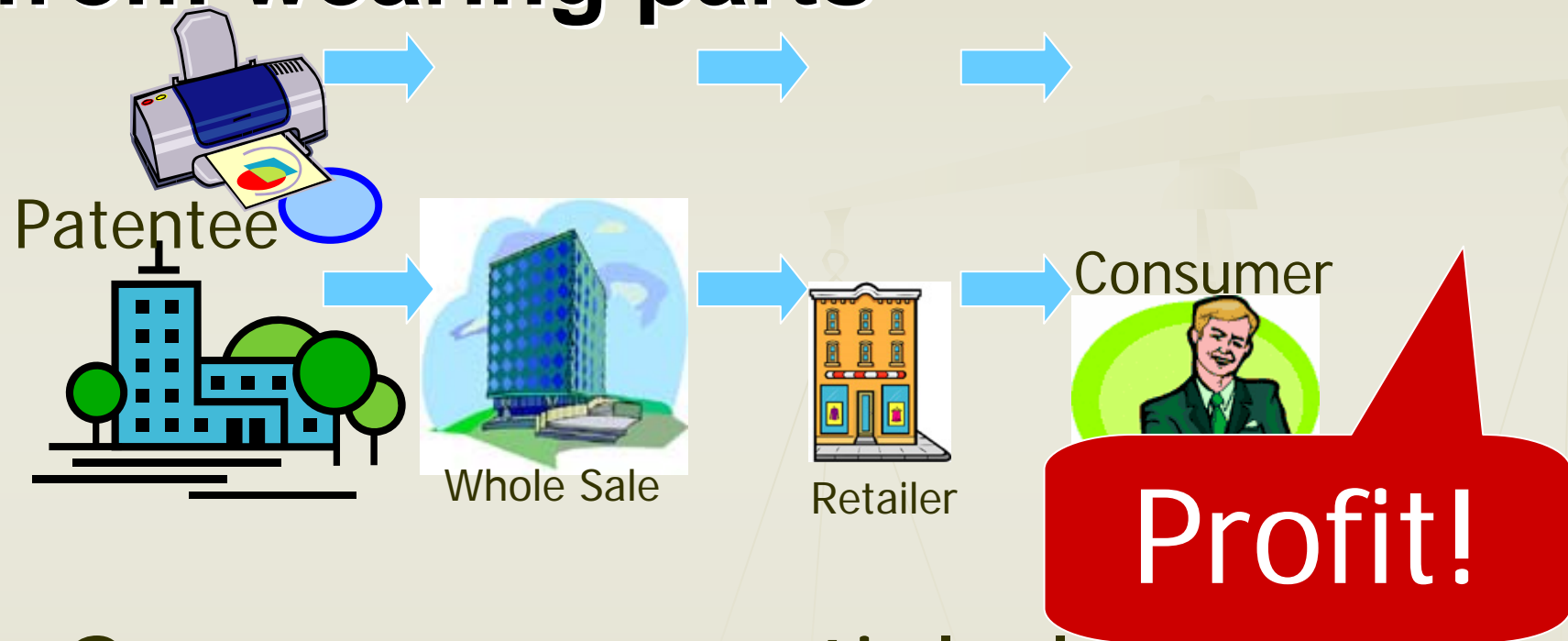
Followed by:

- High Ct. (OLG) Düsseldorf, 17. Nov. 2005, GRUR-RR 2006, 39,40-41-Coffee-Pad-Systeme
- BGH, 3. Mai 2006, GRUR 2006, 837, 838 (para.16) -Laufkranz (exhausted at the case)

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# Business model making profit from wearing parts



- German: “essential elements” of the patented invention
- U.S. “conditional” sale



# “Conditional” Sale in U.S. the Law

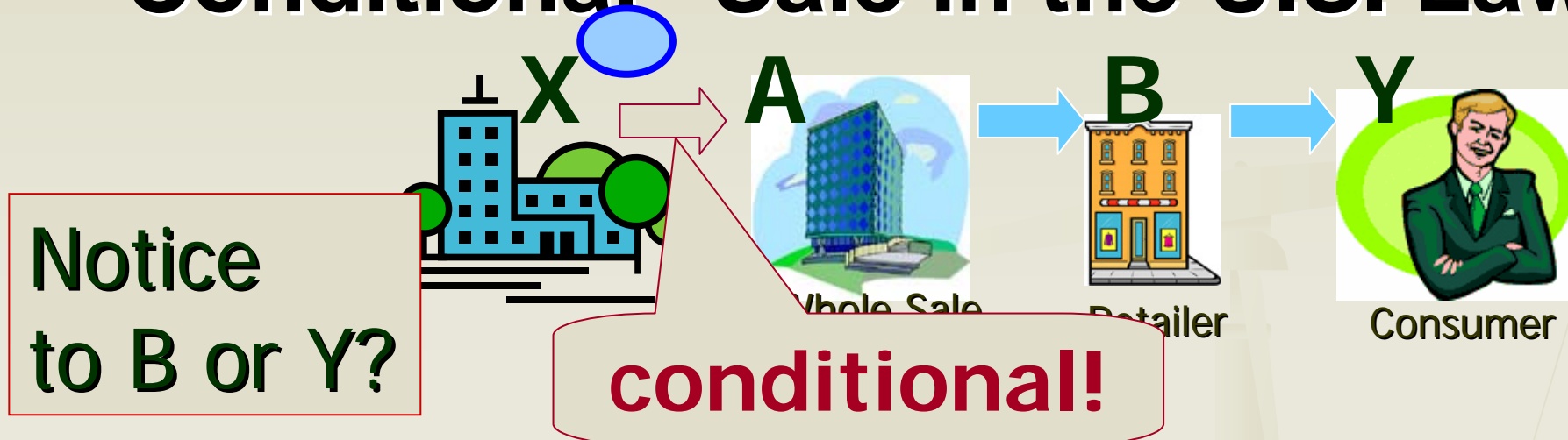
Patent exhaustion doctrine is triggered only by an **unconditional** sale: “The theory behind this rule is that in such a transaction, the patentee has bargained for, and received, an amount equal to the full value of the goods. This

exhaustion doctrine, however, does not apply to an expressly conditional sale or license. In

such a transaction, it is more reasonable to infer that the parties negotiated a price that reflects only the value of the 'use' rights conferred by the patentee.”

*Mallinckrodt, Inc. v. Medipart, Inc.*, 976 F.2d 700, 708 (Fed. Cir. 1992); *B. Braun Medical v. Abbott Lab.*, 124 F.3d 1419, 1426 (Fed. Cir. 1997); *LG Elecs., Inc. v. Bizcom Elecs., Inc.*, 453 F.3d 1364, 1369-70 (Fed. Cir. 2006), cert. granted, 128 S.Ct. 28 (Sept. 25, 2007)

# “Conditional” Sale in the U.S. Law

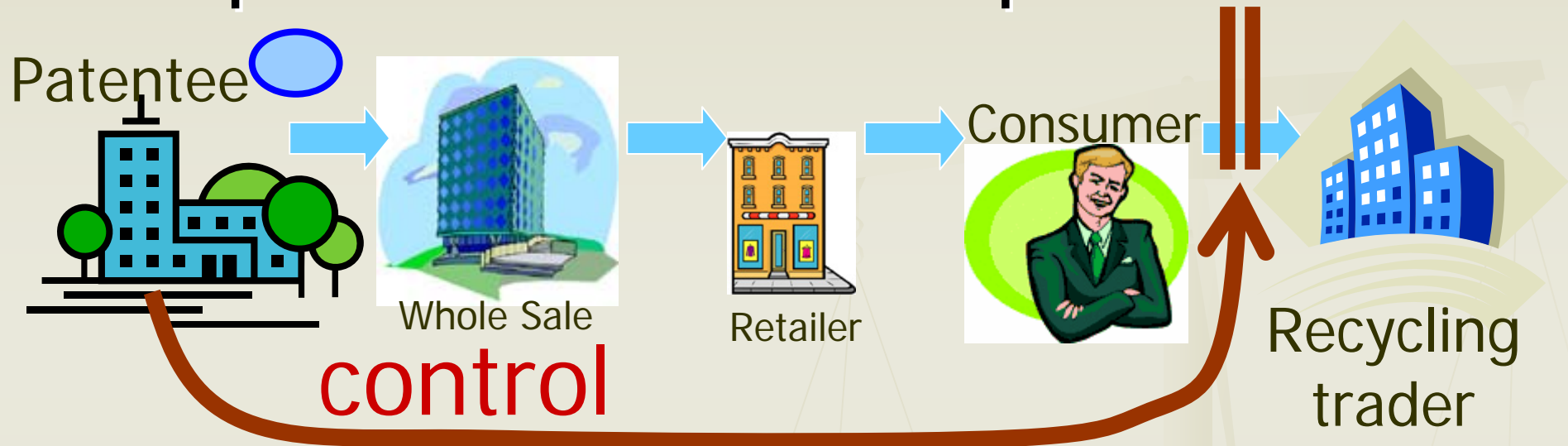


*Monsanto Co. v. Trantham*, 156 F. Supp. 2d 855, 869-70 (W.D. Tenn. 2001); *QSindustries, Inc. v. Mike's Train House, Inc.*, 230 F. Supp. 2d 1240, 1253 (D. Or. 2002); *Pioneer Hi-Bred Int'l, Inc. v. Ottawa Plant Food, Inc.*, 283 F. Supp. 2d 1018, 1033-34 (N.D. Iowa 2003); *Schofield v. United States Steel Corp.*, 2006 U.S. Dist. LEXIS 39605, \*\*32-33 (N.D. Ind. Mar. 31, 2006); *Mass. Inst. of Tech. v. Imclone Sys.*, 2006 U.S. Dist. LEXIS 52600, \*\*7-9 (D. Mass. July 28, 2006); *BASF Agrochemical Prods. v. Unkel*, 2006 U.S. Dist. LEXIS 88672, \*13 (W.D. La. Dec. 6, 2006)

*Minebea Co. v. Papst*, 444 F. Supp. 2d 68, 157-60 (D.D.C. Aug. 17, 2006);

# Vertical Trade Restriction

## -Aspects from the Competition Law



- *State Oil Co. v. Khan*, 522 U.S. 3, 11 (1997)
- *Leegin Creative Leather Products, Inc. v. PSKS, Inc.*, 551 U.S. \_\_ (June 28, 2007)
- *Arco Prods. Co. v. Stewart & Young, Inc.*, 50 Fed. Appx. 336, 338 (9th Cir. 2002); *Care Heating & Cooling, Inc. v. Am. Std., Inc.*, 427 F.3d 1008, 1013 (6th Cir. Nov. 2, 2005)

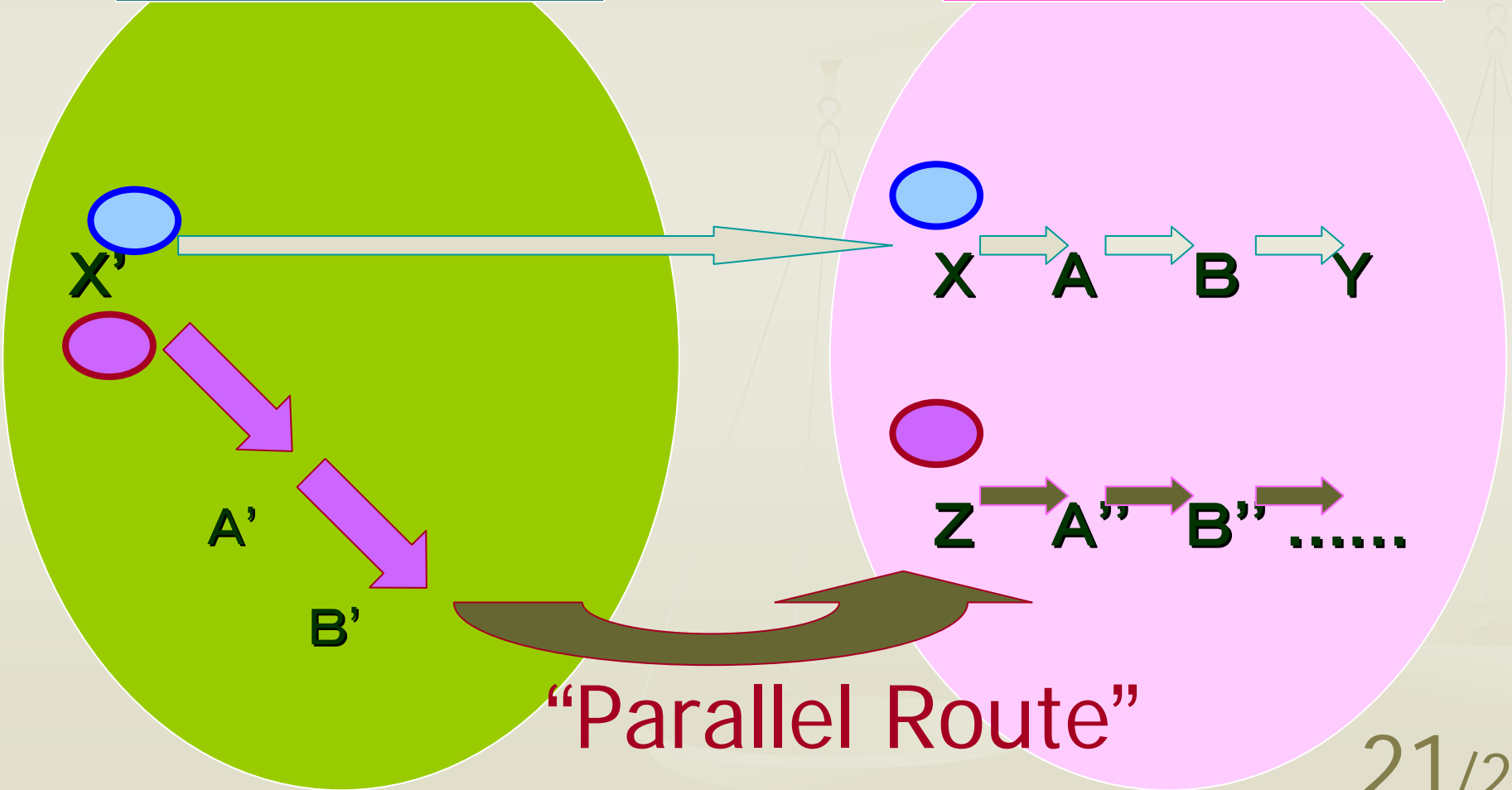
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# Int'l exhaustion of IPRs and Parallel importation

Country Q

Country P



# International Exhaustion: Comparative Law



• *Boesch v. Graff*, 133 U.S. 697, 701-703 (1890)


• *Jazz Photo Corp. v. ITC*, 264 F.3d 1094, 1105 (Fed. Cir. 2001)

• *Fuji Photo Film Co. v. Jazz Photo Corp.*, 394 F.3d 1368, 1376 (Fed. Cir. 2005).

“To invoke the protection of the first sale doctrine, the authorized first sale must have occurred under the United States patent.”



BGH, 14. Dez. 1999, BGHZ 143, 268, 273-4 – *Karate*

( ECJ, 16 July 1998, C-355/96 – *Silhouette*)



BG, 7. Dez. 1999, GRUR Int. 2000, 639, 646-47 - *Kodak*

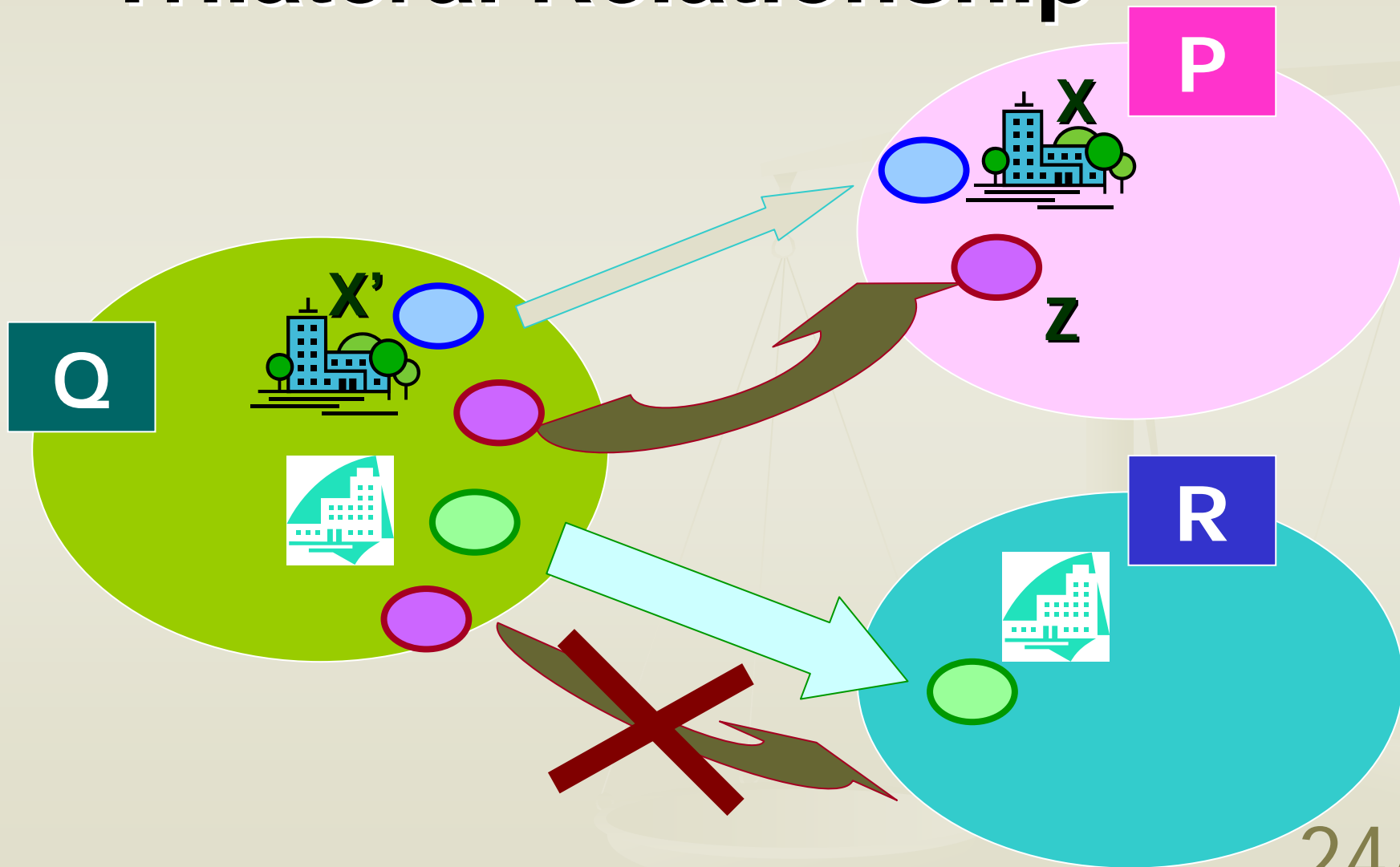


Sup. Ct., July 1, 1997, 51 Civ. L. Rep. 2299 - *BBS*

# International Exhaustion: **NOT** Justifiable


- IPR holder may recover only once  
...on the reward theory (Belohnungstheorie)  
only justifiable in an unified market with  
free movement of goods
- Alternatives of a company X
  - (i) to sell products at the lower price in Q
  - (ii) not to sell any products in Q
  - only (iii) to sell products at different prices  
in P & Q → maximize consumer surplus

# Another View of Int'l Exhaustion - Trilateral Relationship





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***Thank you!***



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