

Patent Infringement / Exhaustion / Reproduction

Canon Inc. v. Recycle Assist Co., Ltd.

IP High Court, Grand Panel / Decided January 31, 2006 / Case No. 2005(ne)10021
Patent Law Sections 100 and 101

January 31, 2006, the Intellectual Property High Court, which was organized within the existing Tokyo High Court in April 2005, rendered an awaited Grand Panel decision in the Canon Inc. v. Recycle Assist Co., Ltd. case concerning the recycling of ink cartridges. The IP High Court reversed an earlier Tokyo District Court decision in which no patent infringement was found. The decision and detailed opinion from the Grand Panel, which consists of the four chief judges of all divisions of the IP High Court and one judge who is in charge of court proceedings, will have a significant impact on businesses that rely on replacement parts, such as ink or toner cartridges, for profits. The defendant has appealed before the Supreme Court.

FACTS

Canon had a Japanese patent (No. 3278410) covering its ink cartridges for ink jet printers and the process of making such cartridges. A Japanese company, Recycle Assist, imported from Macau recycled products of Canon's used ink cartridges collected in the U.S., Europe and Asia including Japan, and sold them in Japan. Canon's ink cartridges were not designed for refill. For refilling, a hole was made to the ink cartridges, residual ink was washed away, and new ink was filled. While Canon argued that the recycled ink cartridges infringed its patent, the Tokyo District Court found, in its decision of December 8, 2004, that Canon's patent had exhausted and no infringement was found. The Court recognized that the ink cartridges did not finish their life when the ink was used up. The making of a small hole for cleaning and refilling did not substantially affect the quality of recycled ink cartridges. The Tokyo District Court also noted that no exhaustion occurs with respect to method claims in general.

Canon subsequently appealed before the Tokyo High Court, and the Intellectual Property High Court, which succeeded all four IP divisions of the Tokyo High Court, decided to take up this case as the third case to be reviewed by the Grand Panel. In the Japanese court system, the formation of inter-divisional panels which are called Grand Panel is new at the High Court level. Grand Panel decisions are expected to help avoid panel dependency among the four IP divisions of the IP High Court.

HELD

In the January 31, 2006 opinion, the Court considered three major questions of law: (1) whether claim 1, which is directed to a product, can be enforced on recycled products made from used Canon cartridges that had been sold in Japan, (2) whether claim 10, which is directed to a method of manufacture, can be enforced against recycled

products made from used Canon cartridges sold in Japan, and (3) whether claim 1 can be enforced on recycled products made from used Canon cartridges that had been sold outside Japan (see the end of this article for an English translation of claims 1 and 10).

First Question:

In answering the first question, while acknowledging its popularity, the Court rejected the repair v. reproduction ("production" according to the Court) dichotomy as it does not always provide adequate answers. The Court first noted that a patent may exhaust under the Supreme Court decision in the BBS parallel import case,¹ and went on to say that a patent does not exhaust and can be enforced under two fact patterns: 1) a patented product is reused or recycled after its "utility" or *kôyô* in Japanese has finished, and 2) part or whole of an essential part of the patented invention is processed or replaced in a patented product. Pattern 2 is a new legal construct in the Japanese jurisprudence. The Court reasoned that the enforcement of a patent under such fact patterns does not hinder free market circulation of patented products, and does not allow the patentee to enjoy profits twice under the same patent. If it is not possible to enforce the patent in either pattern, the patentee loses market opportunities.

Under Pattern 1, the utility would be lost when the patented product becomes unusable due to normal wear and tear, which may be physical or chemical, or even if it is physically or chemically still usable, due to the fact that the limited number of times for its use has reached. The latter may happen, for example, with drugs and disposable syringes. A drug may be taken by a patient and collected from his or her urine. The recovered active component is considered to have lost its utility as it has been used once. The collected and reconstituted drug may be a new product which would become a subject of patent protection once again. Also, utility may be lost when major parts are considerably reworked or a major portion of the essential part is replaced. What is major should be considered in terms of economic value and significance with respect to the entire patented product, and not in terms of technical significance among claimed elements or features. In considering utility, the patentee's intent is not controlling.

For Pattern 2, an essential part of the patented invention is determined based on: 1) previously unsolved technical problems that the invention solves, and 2) characteristic features in the claim central to the technical idea that forms a basis for the solution of the unique technical problems. The Court noted that a patent cannot be enforced if only non-essential parts are processed or replaced because the patented product remains substantially the same and, therefore, the patent stands exhausted.

¹ The Supreme Court decision of July 1, 1997 in the so-called BBS case. This decision deals with the enforcement of a Japanese patent on the parallel importation into Japan of patented automobile wheels sold first in Germany, where a counterpart patent existed. The Japanese patent in dispute and its German counterpart were in the name of the same German company, BBS. The Supreme Court rejected the double profit theory and adopted the theory of implied license in order to justify international exhaustion.

After laying down basic criteria, the Court noted that Pattern 1 is not applicable in this case because the ink cartridges remain usable for their purposes even after ink finishes. This was in fact the conclusion of the lower court decision. It found, however, that two features (items h and k in the English translation of claim 1 shown below) in the patented product claims were not present in the used ink cartridges due to dried residual ink, and they were essential to the invention. Recovering the two lost features, according to the IP High Court, amounted to production under Pattern 2, and therefore infringement was found.

Second Question:

The Court noted that a method patent may exhaust in certain circumstances. However, in the present case, claim 10, directed to a method of manufacture, does not exhaust for the same reasons as those for claim 1, and is enforceable against the recycled products in question.

Third Question:

The Court again relied on the BBS Supreme Court decision. According to this decision, if products are sold in a foreign country by the patentee of a Japanese patent in dispute or by someone who may be regarded as an equivalent of the patentee, it is not possible for the patentee to stop importation into or sale in Japan of those products, unless such products are marked with a specific indication that they are not to be exported to Japan. It should be noted under the theory of implied license according to the Supreme Court, it does not matter whether a counterpart patent exists in that foreign country or not. The IP High Court thus concluded that claims 1 and 10 of the Japanese patent in dispute can be enforced against the importation and sale of the recycled products even if they are made from the Canon cartridges sold outside Japan.

COMMENTS

As with two other decisions so far rendered by the Grand Panel, this decision is meant to provide certain general guidance for the repair/reproduction issue in patent infringement cases. Its applicability goes well beyond the ink or toner cartridge business, and the Court's opinion is intended to cover all areas of technology. It may be even said that it is meant to be a "final answer" to this complex issue from the IP High Court.

At the least, the impact of this decision is far reaching in the recycle cartridge or toner business. Companies currently selling recycled products have to reevaluate their business models. This decision is certainly a big plus for printer makers which heavily rely on the sales of ink and toner cartridges, and not necessarily on printer sales, for profits. The criteria the IP High Court set out, however, may cover limited manners of recycling ink cartridges. As the Grand Panel of the IP High Court set detailed criteria under which a patent can be enforced on recycled products, careful and strategic drafting of claims and specifications has become more important for patentees to dominate in the profitable supplies market.

English translation of Claims 1 and 10 of Japanese Patent No. 3278410
(Each feature in Claim 1 is itemized as in the decision, and reference numbers are added based on the drawing (shown below) found in an exhibit attached to the decision.)

Claim 1

A liquid-holding container (1) comprising:

(a) a chamber containing negative-pressure-generating members (14) that contains first and second negative-pressure-generating members (5, 6) in pressure contact with each other and that has a liquid supply portion (4) and an atmosphere communication portion (10);

(b) a liquid storage chamber (15) that has a communication portion (16) communicating with the chamber containing negative-pressure-generating members (14) and that forms a substantially sealed space and stores liquid to be supplied to the negative-pressure-generating members (5, 6); and

(c) a partition wall (17) that partitions the liquid storage chamber (15) from the chamber containing negative-pressure-generating members (14) and forms the communication portion (16);

(d) in said liquid-holding container (1),

(e) an interface in the pressure contact portion (18) between the first and second negative-pressure-generating members (5, 6) intersects with the partition wall (17);

(f) the first negative-pressure-generating member (5) is in communication with the communication portion (16) and may be in communication with the atmosphere communication portion (10) only through the interface of the pressure contact portion (18);

(g) the second negative pressure generating member (6) is in communication with the communication portion (16) only through the interface of the pressure contact portion (18);

(h) capillary forces at the interface of the pressure contact portion (18) are higher than capillary forces in the first and second negative-pressure-generating members (5, 6); and

(k) liquid is filled in the chamber containing the negative-pressure-generating members (14) with an amount that makes it possible for liquid to be held by the entire interface of the pressure contact portion (18) regardless of a posture of the liquid-holding container (1).

Claim 10

A method for manufacturing a liquid-holding container, comprising:

a step of preparing a liquid-holding container that comprises ... (Structural limitations similar to those in claim 1 are omitted.);

a first filling step of filling the liquid storage chamber with liquid; and

a second filling step of filling the chamber containing the negative-pressure-generating members with liquid in an amount that makes it possible for the liquid to be held by the entire interface of the pressure contact portion

regardless of a posture of the liquid-holding container.

Note: The negative-pressure-generating members are formed by microporous urethane foam or unwoven fibers and stuffed in chamber 14. According to the patent specification, the novelty of the invention lies in the provision of the pressure contact portion 18.

