

**Translation of a Decision of the
Supreme Court of Japan
Announcing a Reconstruction Limitation on
International Patent Exhaustion**

C. Augustine Rakow, J.D.¹

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

Supreme Court, First Petty Bench

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Case No. Heisei 18(jyu)826

¹ Augie is a patent litigation attorney practicing in the Silicon Valley area. He was formerly a professional patents translator in Tokyo where he studied Japanese law and worked for nearly a decade before becoming a lawyer. He writes about cross-border patent litigation in the United States and Japan on his new website *Ichitaro Goes to America*.

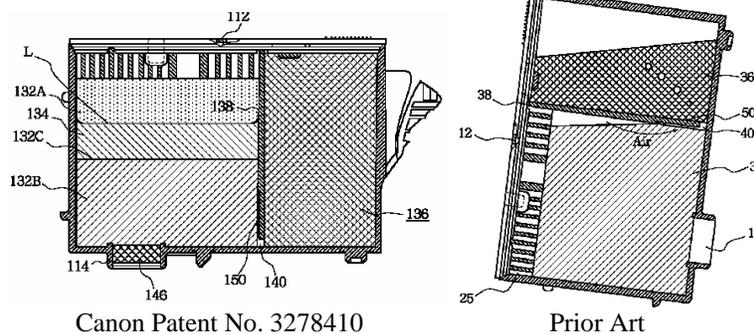
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INTRODUCTION

1. The Patent

Canon's Japanese patent no. 3278410 recites an ink tank cartridge with two chambers. The smaller chamber on the right is a reservoir (136) filled with ink. The larger chamber on the left is a negative pressure chamber (134) housing two absorptive members (132A, 132B). Ink travels from the reservoir on the right through a tiny passageway at the bottom (140) and into the negative pressure chamber on the left, filling the chamber to a point indicated by line L. The absorptive members absorb the ink, stabilizing its to the nozzle (146), and regulating the influx of air from the rear vent (112).



In the *Canon* decision, the Supreme Court held that half of the “essence” of Canon’s invention is the interfacial line (132) where the first and second absorptive members meet and press against each other. Both members absorb ink, but by pressing against each other they create a denser layer along the interface that absorbs ink even more powerfully than the surrounding areas. Therefore, as long as sufficient ink remains in contact with portion of the absorptive members, the members will progressively wick the ink into the denser strip along the interface (132C) where the two absorptive members meet and press against each other. As the ink gets wicked into this strip and distributed along the strip, the ink creates an air-proof wall that completely blocks the flow of air coming in from the rear vent. (The other half of the invention’s “essence,” according to the Court, is that the cartridge is filled with sufficient ink indicated by line L.)

The prior art illustrates what happens without the series of absorptive members wicking ink from the surrounding areas into a solid wall. When a prior art cartridge was tilted on its side, for example, air would entered through the vent (12) and travel feely up into the reservoir (36). As the air floated upward, the ink in the reservoir gushed down into the nozzle, suffusing the cartridge and its packaging and soiling the user’s hands upon being opened.

2. The Facts

As the tanks run out of ink, the absorptive materials dry up and residual ink cakes and hardens on the interfacial layer (132C). As the ink cakes onto the absorptive

members it prevents the interface from being able to perform its patented function of wicking and distributing ink into an air-proof wall.

Petitioner Recycle Assist Co. and its affiliates collected Canon's empty ink tanks in Japan and overseas. They then refurbished them overseas by cleaning the interface so as to restore its patented functionality of absorbing ink to form the air-proof wall of ink. They then refilled the tanks and exported them back to Japan, where Recycle Assist sold them at a reduced price.

3. Holdings

In *Canon*, the Court announced limitations to the general principle of international patent exhaustion, a principle which it had announced in its 1997 decision in *BBS AG v. Racimex Japan* – also known as the “parallel imports” decision.² In contrast to the United States – which has long rejected the principle of international patent exhaustion – the Supreme Court of Japan had held in *BBS* that when a patented article is purchased overseas, any relevant patent is exhausted with respect to that article *even within Japan*. The Court reasoned that given the sophistication of modern international trade, when a buyer purchases an article outside of Japan it is reasonable for the buyer to expect to assume full rights with respect to the patented article, including the right to bring the article into Japan. The Court therefore announced the rule of international patent exhaustion:

“[I]n a case where the owner of a patent in Japan . . . sells its patented products outside Japan . . . 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, or against a third party or subsequent buyer who purchased patented products from the buyer unless a notice of such agreement is clearly placed on the patented products.”

(Note, in *Jazz Photo v. ITC* the Federal Circuit reaffirmed *Boesch v. Graff*, in which the Supreme Court rejected the principle of international patent exhaustion in 1890.)

In *Canon Ink Jet Cartridge*, however, the Court limited the *BBS* principle of international patent exhaustion. The Court established the limitation by noting that first-sale exhaustion occurs only with respect to the specific article that was sold. Therefore, the Court reasoned, if the product is rebuilt so as to create a *new instance* of the article, the patent remains effective against the new article.

² . See *BBS AG v. Racimex Japan K.K. and Jap-Auto Products K.K.*, Case No. Heisei, 7(o)1988, Collected Civil Cases vol. 51, sec. 6, p. 2299 (July 1, 1997 Supreme Court Third Petty Bench). An English translation of the *BBS* case is available at <http://www.okuyama.com/c3v01ok.htm>. The host site belongs to Dr. Shoichi Okayama, a University of Chicago-trained theoretical chemist and prominent Tokyo patent attorney (*benrishi*). The translator is Mr. Jinzo Fujino, former managing partner of Morrison Foerster Tokyo and now professor at Tokyo University of Science. He maintains a highly informative bilingual website at <http://www.jinzofujino.net/>.

Applying this limiting principle to the facts in *Canon*, the Court found that Recycle Assist had engaged in impermissible reconstruction and infringement, since Recycle Assist was refurbishing them after the ink tanks had lost their ability to perform their patented function. Although the tanks could still be used as general purpose ink tanks – and therefore were not necessarily “spent” in the sense that word is used in American reconstruction cases – they had lost their patented functionality. By reviving this functionality, the Court held, Recycle Assist was engaging in impermissible reconstruction and infringement.

SUPREME COURT DECISION

DISPOSITION

The present petition is rejected.
Fees for the petition are to be borne by Petitioner.³

GROUND

We reply below to the reasons for petition urged by Petitioner’s attorneys Horishi UEYAMA, Haruka MATSUYAMA and Nobuyuki KAWAI (redactions excluded).

1 The present case is a suit in which Respondent [Canon], having a patent to ink tanks for ink jet printers, seeks an order enjoining Petitioner [Recycle Assist Co.] from the importation, sale and other certain acts involving ink tanks for ink jet printers, which Petitioner imports and sells, and ordering Petitioner to dispose of such ink tanks, on the basis that they are within the scope of the invention claimed in Respondent’s patent.

2 The following facts were duly found by the District Court:

(1) The Patent

Respondent has patent rights under 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”).⁴

(2) The Present Invention

A. The following technical scope is recited in Claim 1 of the application attached to the above-mentioned patent (hereinafter, the invention of Claim 1 is referred to as “the present invention”):

“A liquid storage vessel having:

³ **Fee awards.** Japanese courts typically award fees in accordance with the Civil Litigation Fees Act. The Act provides for travel and lodging expenses in order to appear in court (though appearances are not typically required for Supreme Court petitions) and fees for the clerical expenses of preparing documents. The Act also awards a daily rate for attorney time while actually in court, but not preparation time, which is the lion’s share. No English version of the Civil Litigation Fees Act could be found online. The Japanese version is available on Houko.com, as are most important Japanese statutes. The Act’s Japanese name is 民事訴訟費用に関する法律 (*Minji-sosho-ho Hiyo ni kansuru Horitsu*).

⁴ **JPO Materials Online.** The Canon patent and most Japanese IP materials, including Japanese registered trademarks, are available through the English interface of the IPDL (Industrial Property Digital Library) at www6.ipdl.inpit.go.jp/homepg_e.ipdl. All Japanese patent abstracts are available in English through the “PAJ” link. (The Canon patent is retrievable by clicking the PAJ link then the “Number Search” button, and entering the patent number 3278410.) Machine translations of entire Japanese patents – useful only for extremely limited purposes – are available through the “Patent & Utility Model Gazette DB” link.

a negative pressure chamber housing a first and a second negative pressure generating member that press against each other,⁵ and having a liquid supply section and a vent that opens to the atmosphere;

a liquid storage reservoir having a passageway connecting to the negative pressure chamber and forming a substantively sealed space, and storing liquid to be supplied to the negative pressure generating members; and

a partition wall separating the negative pressure chamber from the liquid storage reservoir and giving shape to said passageway,

wherein the liquid storage vessel is characterized in that:

a compressed section along the interface between the first and the second negative pressure generating members intersects with said partition wall;

the first negative pressure generating member connects to the passageway, and communicates with the atmospheric vent only through the compressed interface, while the second negative pressure generating member communicates with the passageway only through the compressed interface;

the wicking action of the compressed interface is stronger than the wicking action of the first and second negative pressure generating members; and

the negative pressure chamber is filled with a sufficient amount of liquid such that the entirety of the compressed interface can hold liquid no matter what position the liquid storage vessel may be in.

(Of the limitations above, the limitation reciting that “the wicking action of the compressed interface is stronger than the wicking action of the first and second negative pressure generating members” will be called “Limitation H.” The limitation that “the negative pressure chamber is filled with a sufficient amount of liquid such that the entire compressed interface can hold liquid no matter what position the liquid storage vessel may be in” will be called “Limitation K.”)

B. The present invention relates to an ink tank for use in an ink jet printer. The prior art attempted to keep ink inside the ink tank so that it did not leak out to the exterior, while increasing the ink tank’s capacity to store ink per unit volume, and

⁵ **“Press against each other.”** The Japanese term here, 圧接 (*atsu-setsu*), typically refers to a type of welding known as “pressure welding.” In mechanical patents, however, it frequently means “pressing together” or “making contact with pressure,” which is closer to the literal meaning of the two characters. This latter meaning is clearly intended in this patent.

at the same time being able to supply ink at a stable rate. In order to achieve this, the ink tank's interior was divided by partition walls into multiple rooms. A negative pressure generating member (a porous material such as urethane or ink-absorbing material such as felt) was placed in the room near the nozzle supplying ink to the printer (the negative pressure chamber) and the chamber was suffused with ink. The remaining part (the liquid storage reservoir) was simply filled with ink without a negative pressure generating member.

However, these ink tanks had the following problem. When the ink tanks were transported or kept in storage before being used, they could be left in such a position that the liquid storage reservoir would be on top of the negative pressure chamber. When this happened, the air in the negative pressure chamber [above] would trade places with the ink in the liquid storage reservoir [below] through a process of gas-liquid exchange. Thus, the ink in the liquid storage reservoir would flow down through the passageway into the negative pressure chamber. The ink would thus suffuse even those areas of the negative pressure chamber that were not originally suffused with ink, overfilling the negative pressure chamber. When the package was opened, therefore, ink would leak out from the liquid supply nozzle, etc., and would soil the user's hands and the like.

The present invention adopts a construction in which: (1) The negative pressure chamber houses two negative pressure generating members (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. This pressure increases the wicking action of the compressed interface, or interfacial layer, making it stronger than the wicking action of each of the negative pressure generating members (Limitation H). Meanwhile (2) the negative pressure chamber is filled with a sufficient amount of liquid such that the entirety of the compressed interface can hold liquid no matter what position the liquid storage vessel may be in (Limitation K). These structures produce a state where ink is retained within the compressed interface at all times, thus forming a barrier that stops the flow of air, and preventing the ink in the liquid storage reservoir from flowing out to the negative pressure chamber and overfilling it with ink, no matter what position the ink tank may be in.

This construction is how the invention seeks to prevent leakage when the package is opened, so the structures of both Limitation H and Limitation K are essential parts of the invention. That is to say these are the technical aspects that form the core of the technical idea at the foundation of the present invention's means for solving the problems in the prior art.

(3) Respondent [Canon]'s Products

A. Respondent [Canon] manufactures products embodying the present invention in Japan 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 “Respondent’s products”). Respondent’s affiliates and other licensed entities also sell Respondent’s products overseas. For the products sold overseas it should be noted that Respondent 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 Respondent’s products, either.

B. When Respondent [Canon]'s products are installed in printers and used for printing, the ink inside them diminishes as the ink flows out the ink supply nozzle to the printer. After being used for a certain amount of time, part or all of the compressed interface between the first and second negative pressure generating members, which are made of fibrous material, stops holding ink. Printing, however, remains possible even after that point.

C. When Respondent [Canon]'s products run out of ink they are considered fully used⁶ and removed from the printer. But even after Respondent’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, in the compressed interface 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 of the fibrous material of the negative pressure generating members, including the compressed interface. This creates air bubbles and air layers in the spaces. The result is a state where the negative pressure generating members are prevented from absorbing and holding new ink.

If Respondent’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 compressed interface is no longer able to create 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 Respondent's products are not furnished with holes for refilling ink.

⁶ **“Fully used.”** The Japanese phrase 使用済み (*shiyoh-zumi*) means “used,” “fully used,” or more literally “done being used.” It is tempting to translate this as “spent,” but the Court clearly does not consider Canon’s ink tanks to be spent. Indeed, in the last paragraph of section 3 of the decision, below, the Court unequivocally states that Canon’s products “cannot be said to have completed their lifespan and lost their effectiveness as products simply because their original ink was consumed.” Therefore, “spent” does not seem to be an appropriate translation here. Moreover, in American patent law, reconstruction of a “spent” article almost necessarily constitutes infringement. Although the Japanese Court ultimately finds infringement, it is not because the article is “spent” or “used up,” but rather because the tanks had lost their patented functionality due to the hardening of residual ink along the interfacial layer by the time Recycle Assist refurbished them. Thus, the Court does not view the articles as being “spent” in the sense that word is used in American patent case law.

D. Respondent [Canon]'s products have a retail price of about 800-1000 yen each.⁷

(4) Petitioner [Recycle Assist]'s Products

A. Petitioner [Recycle Assist Co.] imports the ink tanks listed in the District Court Decision Appendix Record (1), (2), which fall within the scope of the present invention (hereinafter "Petitioner's products"). Petitioner imports them from a company in Macao, PRC (company name unknown, hereinafter "Company A"), and then sells them in Japan.

Petitioner's products are created as follows. An affiliate of Company A (name unknown, hereinafter "Company B") collects Respondent [Canon]'s used ink tank cartridges (hereinafter, "the cartridges") in Japan and overseas. A subsidiary of Company B (hereinafter, "Company C") then buys the cartridges and uses them to create salable merchandise 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 Petitioner [Recycle Assist].

B. The period of time from when the cartridges are removed from their printers until Company C refurbishes them as Petitioner [Recycle Assist]'s products is longer than the week to ten days needed for the ink inside them to harden. By the time they are to be refurbished, the negative pressure generating members can no longer absorb and hold new ink, and so the ability of the compressed interface 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 Petitioner [Recycle Assist]'s products involves: (1) opening a hole for cleaning and injecting ink on the upper surface of the cartridge's liquid storage reservoir; (2) cleaning the inside of the cartridge; (3) applying measures to keep the ink from leaking through the cartridge's ink supply nozzle; (4) injecting ink into the negative pressure chamber through the hole mentioned in step one until the ink rises to a point above the compressed interface between the negative pressure generating members, and into the entire liquid storage reservoir; (5) plugging the hole created in step one and the ink supply nozzle; and (6) applying labels and the like.

D. In Petitioner [Recycle Assist]'s products, therefore, the insides of the cartridges are cleaned and the hardened ink is washed away to restore the ability to create the barrier in the compressed interface that stops the flow of air. And not only is the liquid storage reservoir almost completely filled with ink, but the negative pressure chamber is also filled with ink up to a point above the compressed 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 position the ink tank may be in.

⁷ USD \$7-10.

E. Petitioner [Recycle Assist]'s products have a retail price of 600-700 yen each.⁸

(5) Respondent [Canon]'s Efforts to Recover Used Ink Tanks

A. When used ink tanks are refilled and reused, the ink that has dried inside them 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, Respondent warns that its products should not be refilled with ink and reused, but rather are for single use only and should be replaced with new items. In addition to indicating that the ink tanks are of the single-use variety, in order to recover used articles Respondent urges users of the products to replace them with new replacement ink tanks and encourages users to cooperate with Respondent's programs for recovering used ink tanks. Respondent does this on the packaging of its articles, in the user manuals of Respondent's printers that use Respondent's products, and on Respondent's web site.

B. Each company that manufactures ink jet printers, including Respondent, 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). Most methods for manufacturing recycled products are similar to Company C's method for creating Petitioner [Recycle Assist]'s products. Ink is also sold so that ink tank users can refill the ink (*i.e.*, ink refills.) Respondent [Canon], however, does not make or sell recycled products or ink refills.

3 The District Court Granted Respondent [Canon]'s Request And Held As Follows

In the case where 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 can no longer use the patent to do such things as enjoin the use, sale⁹ or lease of that article. *See BBS AG v. Racimex Japan K.K. and Jap-Auto Products K.K.*, Case No. Heisei, 7(o)1988, Collected Civil Cases vol. 51, sec. 6, p. 2299 (July 1, 1997 Supreme Court Third Petty Bench). However, the patent right should not be deemed exhausted when (1) the patented article is reused or recycled after completing its normal lifespan and losing its effectiveness as a product (Type 1); or when (2) a part of the article constituting an essential part of the patented invention is partly or completely

⁸ USD \$5-7.

⁹ "Sale." The Court is referring here to the Japanese statutory term 譲渡 (*johto*), which is broader than "sale" and is traditionally rendered as "assignment." I translate it as "sale," however, for several reasons. The most common type of assignment is a sale. "Sale" is much easier to understand than "assignment." The term *johto* is used in lay Japanese conversation like "sale" in English. The statute and Court both make liberal use of the word "etc.," so the phrase "sale etc." preserves the breadth of the term "assignment." And finally, in American patent law "assignment" typically refers to transfer of the patent itself, and therefore should be reserved for the term 移転 (*iten*) in the Japanese patent statute.

modified or replaced by a third party (Type 2). In such cases the patent right should not be deemed exhausted, and therefore the patentee should be permitted to exercise its rights with respect to such articles.

On the other hand, when the holder of a Japanese patent or party regarded as such sells a patented article *in a foreign country*, the patentee should not be allowed to exercise 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 patentee agreed with the buyer to exclude Japan from the article's territory of sale or use), or by a third party or subsequent purchaser who acquired the article from the buyer (unless such agreement was reached with the buyer and is also clearly marked on the article). *Id.* However, the patentee should be permitted to exercise the patent with respect to those articles (1) if the patented article was reused or recycled after completing its normal lifespan and losing its effectiveness as a product (Type 1), or (2) if a part of the article constituting an essential part of the patented invention was partly or completely modified or replaced by a third party (Type 2).

In the present case, Respondent [Canon]'s products cannot be said to have completed their lifespan and lost their effectiveness as products simply because their original ink was consumed. Therefore, they do not fall under Type 1. However, Company C's procedures for refurbishing the articles for Petitioner's products are performed on the cartridges at a point when they do not possess Limitation H and Limitation 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 that satisfies Limitation 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 Respondent's products. Therefore, Petitioner's products fall under Type 2 whether they were made using Respondent's articles sold domestically or those sold overseas. For this reason the exercise of patent rights should not be restricted, and so Respondent may request an order enjoining Petitioner's importation, sale etc. of the products and ordering their disposal.¹⁰

4 Petitioner [Recycle Assist] argues that the District Court's decision employed an illegal standard to determine whether the patent right could be exercised, and that its judgment in reliance on that standard not to restrict the patent right violated the law. We cannot adopt this argument. The reasons are as follows.

(1) In the case where 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 patent's effect no longer applies to the use, sale etc. of the article. (Here and below, this phrase

¹⁰ Art. 100, sec. 2 of the Japanese statute guarantees both injunctive relief and an order requiring the disposal of infringing objects and facilities used for their production. Compare the discretionary nature of injunctive relief under 35 U.S.C. § 283.

includes the use, sale etc., export or import, or offer to sell etc., as stated in art. 2, sec. 3, para. 1 of the Patent Act.) When the patentee has made such sale, the patentee should not be permitted to exercise the patent right 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 fluid circulation on the market, causing instead 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, the patentee has already had the opportunity to secure its reward for publishing the invention, so when the patentee sells the patented article it is not necessary to let him benefit twice in the course of its circulation. *Id.* This type of exhaustion is expressly provided for in art. 12, sec. 3 of the Semiconductor Integrated Circuit Design Act,¹¹ and art. 21, sec. 1, para. 4 of the Seeds and Seedlings Act.¹² We think the exercise of patent rights should be restricted in the same way.

Still, exhaustion operates to limit the patent only for the specific article sold by the patentee in Japan. Therefore, when an article sold in Japan by the patentee is modified or its parts are replaced, and because of this a new instance of the patented article having a new identity is created, the patentee should be permitted to exercise the patent with respect to the new article. Moreover, in order to determine whether a new instance of the patented article was constructed, it is appropriate to consider the totality of the circumstances including the attributes of the patented article, the

¹¹ **Semiconductor Integrated Circuit Design Act.** 半導体集積回路の回路配置に関する法律 (*Handoutai-shyuseki-kairo no Kairo-haichi ni Kansuru Houritsu*).

Article 12. (Scope of a Circuit Layout Right)

...

3. If the holder of a circuit layout right, or a sole or ordinary use grantee, transfers semiconductor integrated circuits manufactured by utilizing the registered circuit layout . . . to another person, the effect of the circuit layout right shall not extend to the transfer, lease, exhibition for the purpose of transferring or leasing, or the import of such transferred semiconductor integrated circuits.

English translation of Semiconductor Act: www.wipo.int/clea/docs_new/pdf/en/jp/jp008en.pdf.

¹² **Seeds and Seedlings Act.** 種苗法 (*Shyubyoh-hoh*).

Article 21. Limitation of the effects of the Breeder's Right.

(1) The effects of a breeder's right shall not extend to the following acts:

...

(ii) production of seeds and seedlings of the registered variety, by a person who has a patent for the process of breeding the registered variety (including a variety which is, on the basis of its characteristics not clearly distinguishable from the registered variety; hereinafter the same shall apply throughout this paragraph) or a person who has been granted an exclusive license or non-exclusive license to use the said patent, by means of the process pertaining to the said patent, or conditioning, offering for transfer, transferring, exporting, importing or stocking for these purposes, of the said seeds and seedlings;

...

(iv) production, offering for transfer or lease, transferring, leasing, exporting, importing or stocking for these purposes, of the harvested material obtained from the seeds and seedlings set forth in items (ii) and (iii) of this paragraph.

English translation of Seeds and Seedlings Act: www.hinsyu.maff.go.jp/english/default2.htm.

content of the patented invention, the manner in which the article was modified or its parts replaced, as well as the actual conditions of the commercial 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 was modified or its parts were replaced should include the state of the patented article when it was 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.¹³

(2) On the other hand, in the case where the holder of a Japanese patent or one regarded as such (hereinafter, both are “the patentee”) sells a patented article *in a foreign country*, the patentee should not be allowed to exercise the patent with respect to that article within Japan against the buyer (unless patentee agreed with the buyer to exclude Japan from the article's territory of sale or use), or against a third party or subsequent purchaser who acquired the article from the buyer (unless such agreement was reached with the buyer and this is also clearly marked on the article). *Id.* 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 sold the article in Japan. Therefore, when an article sold by the patentee in a foreign country is modified or its parts are replaced, and because of this a new instance of the patented article having a new identity is created, the patentee should be permitted to exercise the patent with respect to the new article within Japan. Moreover, the determination of whether a new instance of the patented article was constructed should follow the same standard as when an article sold in Japan is modified or its parts are replaced.

(3) We turn now to the present case. According to the facts given above, when Respondent [Canon]'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, Respondent warns, its articles are for single use only and should be replaced with new items. For this reason Respondent's products do not have holes for adding ink, and this structure makes it necessary to open holes in the cartridges in order to refill the ink. Indeed, in the course of refurbishing them to make Petitioner's products, a hole is opened on the top surface of the cartridge's liquid storage reservoir and is closed after the ink is injected. In this light, the nature of the modification etc. performed to make Petitioner's products goes beyond simply refilling consumable ink: It is nothing less than a physical alteration of the ink tank cartridge to make it refillable.

Furthermore, according to the facts described above, it is the ink itself in Respondent's products which performs the technical function of becoming the barrier in the compressed interface to stop the flow of air. Thus, once the ink is consumed to a certain degree, some or all of the compressed interface loses its ability to hold ink. Moreover, when Respondent's used products are removed from the printer, the residual ink inside them hardens in about one week to ten days. Thus, if the ink tanks

¹³ The Supreme Court typically underlines key holdings, which are further summarized on the Court's website.

are refilled while in this state, the ink cannot create 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 compressed interface where the negative pressure generating members meet. In Petitioner's products, however, the insides of the cartridges are cleaned to wash away the hardened ink and restore the ability to create the barrier along the compressed interface that stops the flow of air and the ink is also filled to the same level as Respondent's articles before they were used. These steps return the ink tank to the state where ink can be held along the entirety of the compressed interface no matter what position the ink tank may be in.

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

Additionally, when we consider *in toto* the circumstances of the commercial transactions involving the ink tanks along with the other circumstances appearing in the facts described above, Petitioner's products should be viewed as new instances of the patented article having different identities from Respondent's products before the modifications took place. The present patent right, therefore, should not be restricted with respect to those products of Petitioner that were made using Respondent's used cartridges that were sold in Japan by the patentee, or sold overseas by the holder of the Japanese patent. Therefore, since Respondent is the holder of this patent right, Respondent may seek an order based on the patent to enjoin the importation, sale etc. of these articles and ordering their disposal.

5 As stated above, the district court's decision is correct in its conclusion with respect to the points discussed above. We cannot adopt the argument of this appeal.

NOW, THEREFORE, this Court has unanimously decided what was stated in the disposition of this decision.

(Presiding Justice Kazuko YOKO'O Justice Tatsuo KAINAKA Justice Tokuji IZUMI
Justice Chiharu SAIGUCHI Justice Norio WAKUI)

GLOSSARY

Technical Terms In Canon Patent No. 3278410	
Japanese	English
部材	Part, Member
負圧発生部材 負圧発生部材収納室	Negative pressure generating member ["Negative pressure member"] Negative pressure generating member housing chamber ["Negative pressure chamber"]
連通する 連通部、連通孔 大気連通部、大気連通口	Communicate with, Connect to, Open to Passageway Vent opening to the atmosphere, Atmospheric vent
収納 液体／液体収納室 液体供給部	Store (Storage), House (Housing) Liquid / Liquid storage reservoir Ink supply portion
界面 圧接部の界面	Interface [where two things meet each other] Compressed interface
インクタンクの姿勢にかかわらず、 圧接部の界面において空気の移動を妨 げる障壁を形成する機能	Ability to create a barrier along the compressed interface that stops the flow of air no matter what position the ink tank may be in.
インク／インクタンク インクタンク本体 インクジェットプリンター インク収納容器、液体収納容器	Ink / Ink tank Ink tank cartridge ["cartridge"] Ink jet printer ["printer"] Ink storage vessel / Liquid storage vessel
インク供給口、液体供給口 インク吸収体 インク流路	Ink supply nozzle, Liquid supply nozzle Ink absorbing material Ink flow routes
吐出／吐出記録／液体吐出記録装置	Jet / Jet Recorder / Liquid jet recorder
補充、充填、過充てん、含浸、注入	Add, Fill, Overfill, Suffuse, Inject
圧接する 密閉空間 仕切り壁 開口部、穴	Compress, Press together Sealed space Partition wall Hole
フェルト／多孔質体 毛管力	Felt / Porous material Wicking action
使用済み 製品化する 取引 純正品	Used, Fully used Refurbish, Turn into a salable article Commercial transaction Genuine goods
ノズルの目詰まり 品質低下／故障 プリンタ本体	Clogged nozzle Reduced print quality / Malfunction The printer itself

Legal terms	
Japanese	English
主文 理由 棄却	Holding Grounds Rejected
原審 原判決別紙物件目録	The District Court's decision District Court Decision Exhibit Record
上告人 上告人製品 上告代理人 上告受理申立て理由	Petitioner [Recycle Assist Co.] Petitioner's articles Petitioner's attorneys Reasons for review
被上告人 被上告人製品 被上告人の請求	Respondent [Canon] Respondent's products Respondent's prayer
本件特許権 特許製品 実施製品、特許発明にかかる製品 構成要件 H 本質的部分	The patent Patented article Article embodying the invention Limitation H Essential part(s)
我が国の特許権者 許諾を受けた実施権者	Holder of a Japanese patent. Licensee
総合考慮	Totality of the circumstances, <i>In toto</i>
加工 交換	Modify Replace parts
使用、輸入、輸出、貸出し 譲渡 譲渡等 申し出	Use, Import, Export, lease Sale Sale etc. Offer

Names	
Justices (First Petty Bench)	
横尾和子 (裁判長裁判官)	Kazuko YOKO'O (Presiding Justice)
甲斐中辰夫 (裁判官)	Tatsuo KAINAKA (Justice)
泉徳治 (裁判官)	Tokuji IZUMI (Justice)
才口千晴 (裁判官)	Chiharu SAIGUCHI (Justice)
涌井紀夫 (裁判官)	Norio WAKUI (Justice)
Attorneys (Hibiya Park Law Offices)	
上山浩	Hiroshi KAMIYAMA
松山遙	Haruka MATSUYAMA
川井信之	Nobuyuki KAWAI

MORE CASES ON INTERNATIONAL EXHAUSTION AND REFURBISHING

1. Japan

Title	<i>BBS AG v. Racimex Japan K.K. and Jap-Auto Products K.K.</i>
Court	Supreme Court of Japan, Third Petty Bench
Citation	Case No. Heisei, 7(o)1988, Collected Civil Cases vol. 51, sec. 6, p. 2299 (July 1, 1997)
url	English: http://www.okuyama.com/c3v01ok.htm Japanese: http://www.courts.go.jp/hanrei/pdf/3FD1A34CA50ADF5049256A8500311DB5.pdf
Patent	German plaintiff's Japanese Patent No. 1629869 for "Automobile Wheel" and corresponding German patent.
Facts	German auto parts maker held virtually identical patents in Germany and Japan. When Japanese companies bought its products in Germany and imported them into Japan, where the German company sought to enforce its Japanese patent against the importers.
Held	(1) International Patent Exhaustion – Paris Convention. Under the Paris Convention, the question of whether an overseas sale of a product embodying a Japanese patent triggers exhaustion of the Japanese patent within Japan is a matter of domestic Japanese patent law. (2) International Patent Exhaustion – Japan Patent Act. As a matter of Japanese patent law, the sale of the product in Germany does in fact exhaust the Japanese patent with respect to that article even within Japan, because purchasers expect to assume all rights with respect to the articles they purchase, unless they agree otherwise and any restrictions are clearly marked on the product to protect subsequent buyers.

Title	<i>Recycle Assist Co. Ltd. v. Canon, Inc.</i>
Court	Supreme Court of Japan, First Petty Bench
Citation	Case No. Heisei 18(jyu)826 (November 8, 2007)
url	English: This translation is available at <i>Ichitaro Goes to America</i> (http://usjapanpatentlitigation.wordpress.com/) Japanese: http://www.courts.go.jp/hanrei/pdf/20080111155502.pdf
Patent	Canon's Japanese patent no. 3278410 for an ink jet cartridge.
Facts	Defendant Recycle Assist Company and affiliates collected used Canon printer cartridges in Japan and overseas, refurbished them overseas, and resold them in Japan at a lower price than new Canon cartridges.
Held	(1) International Patent Exhaustion. Reaffirmed <i>BBS</i> rule that the sale of a product overseas exhausts a Japanese patent within Japan. (2) Impermissible Reconstruction Limitation to International Patent Exhaustion. Defendants refurbishing constituted impermissible reconstruction. Once Canon's ink tanks are used past a certain point they lose their ability to perform their essential patented function. Therefore, even though they can still be used in ink jet printers – and therefore are not "spent"

	– reviving this essential patented function constitutes impermissible reconstruction.
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2. United States

Title	<i>Boesch v. Graff</i> (1890) US = no international exhaustion?
Court	Supreme Court
Citation	133 U.S. 697 (1890)
Patent	Mr. Graff’s U.S. Patent no. 239,571 for an improvement on lamp-burners.
Facts	Defendants purchased Graff’s lamp-burners in Germany from a licensed German seller where they were protected by a corresponding German patent, and resold them in the U.S.
Held	No International Exhaustion. The German seller’s right to sell products in Germany under the German patent and under German laws does not affect the force of the U.S. patent.

Title	<i>Jazz Photo v. ITC</i>
Court	Fed. Cir. 2001
Citation	264 F.3d 1094
Patent	Fuji Film’s patents for single-use cameras called LFFPs (“lens-fitted film packages.”)
Facts	Fuji film sued twenty-seven respondents on fifteen patents in the ITC for importing LFFPs into the United States after refurbishing / reconditioning overseas.
Held	No International Exhaustion. First-sale exhaustion occurs only when the sale is made under the United States patent. No exhaustion for products of foreign provenance. - Citing <i>Boesch v. Graff</i> , 133 U.S. 697, 701-703 (1890). - Directly contrasts with Japan’s <i>BBS</i> and <i>Canon Ink Cartridge</i> cases.

Title	<i>Fuji Photo Film Co., Ltd. v. Jazz Photo Corp.</i>
Court	Fed. Cir. 2005
Citation	394 F.3d 1368
Patent	Fuji Film’s patents for single-use cameras called “lens-fitted film packages (LFFPs).”
Facts	Fuji Film sued Jazz Photo in district court for importing and selling 40 million reconditioned LFFPs.
Held	No International Exhaustion. International first sale does not exhaust rights under the US patent. Therefore, only LFFPs sold within the US qualify for the repair defense.

Title	<i>Canon v. GCC Int’l</i> , 2006-1615 (Fed. Cir. January 25, 2008)
Court	CAFC
Citation	Slip op no. 2006-1615, January 25, 2008
Patent	Canon patent No. 6,336,018 for a toner cartridge standing alone, not in

	combination with a printer.
Facts	Defendant sold replaceable toner cartridges for Canon printers and faxes. District court granted preliminary injunction, finding substantial likelihood of success on the merits.
Held	Impermissible Reconstruction. Affirmed Canon’s substantial likelihood of success.

Title	<i>Hewlett-Packard Co. v. Repeat-o-Type Stencil Mfrg.</i>
Court	123 F.3d 1445
Citation	(Fed. Cir. 1997)
Patent	Various HP patents for non-refillable ink jet cartridges.
Facts	Repeat-o-Type (ROT) purchased and <u>new</u> HP cartridges (not “spent” cartridges), modified them to make them refillable, and sold them.
Held	(1) Permissible Modification. The buyer of a patented article has the right to modify the article as long as reconstruction doesn’t occur, unless prohibited by a contractually valid limitation. (2) Permissible Modification. Modifying ink jet cartridges to make them refillable is not impermissible reconstruction.

Title	<i>Mallinckrodt, Inc. v. Medipart, Inc.</i>
Court	Federal Circuit.
Citation	976 F.2d 700 (Fed. Cir. 1992)
Patent	Mallinckrodt’s patent for “nebulizer” apparatus for delivering radioactive or therapeutic material in aerosol mist form into the lungs of a patient, for diagnosis and treatment of pulmonary disease.
Facts	Mallinckrodt inscribed “Single Use Only” on the nebulizers and instructed hospitals to seal and return to Mallinckrodt. Instead, hospitals shipped used nebulizers to Medipart for reconditioning for subsequent use.
Held	Limiting Exhaustion by Contract. First-sale exhaustion is triggered by <i>unrestricted</i> first sale. A sale may be conditioned, and valid license contract can contain limitations that preserve patentee’s rights over the articles.

Title	<i>Arizona Cartridge Remanufacturers Association v Lexmark</i>
Court	9th Cir.
Citation	421 F.3d 981 (9th Cir. 2005)
Patent	Lexmark’s patent for printer cartridges. (The patent itself was not at issue.)
Facts	Lexmark advertised a “Prebate” program for purchasers to receive up-front discounts if they agreed to return the empty cartridge to Lexmark. Under <i>Mallinckrodt</i> , this contractual restriction would limit first-sale exhaustion if the contract is valid. Remanufacturers sued patentee Lexmark claiming the contract violates state unfair competition laws.
Held	Limiting Exhaustion by Contract. Contract is valid since it does not violate California unfair competition statutes.

Title	<i>Quanta v. LG and Bizcom</i>
Court	CAFC
Citation	453 F.3d 1364
Patent	LGE's patents relating to microprocessors and chipsets for PCs. The patents don't cover LGE's products as combined with further components, but not the products standing alone.
Facts	Intel bought and licensed products from LGE under a conditional agreement that allowed Intel to resell the products, but only for use in combination with other Intel products. The contract required Intel to notify subsequent purchasers of the restrictions. Bizcom's purchased products from Intel without <i>uncondition</i> . LGE sued Bizcom, who asserted implied license and exhaustion.
Held	(1) Limiting Exhaustion by Contract. Patent is exhausted only by <i>unconditional</i> sale. (The court didn't mention any need to notify subsequent purchasers.) (2) Scope of Exhaustion. The sale of a device doesn't exhaust relevant method claims.

Title	<i>Quanta</i> – TBD
Court	Supreme Court
Citation	
Issue	Appeal from CAFC decision in <i>Quanta v. LG and Bizcom</i> .
Held	TBD.

Title	<i>Adams v. Burke</i>
Court	Supreme Court
Citation	84 U.S. 453 (1873)
Patent	Adams' U.S. patent for coffin lids.
Facts	Patentee Adams licensed Lockart & Seelye to make, use and sell coffin lids <i>within</i> Boston. Undertaker Burke purchased coffin lids from Lockart & Seelye and used it at his place of business <i>outside</i> Boston.
Held	Scope of Exhaustion. Even when a first sale is subject to territorial restrictions as to the right to <i>make</i> and <i>sell</i> , the right to <i>use</i> stands on a different ground. The patent is exhausted as to the right to <i>use</i> . Purchaser can use the article without territorial restriction.

3. Canada

Title	<i>Eli Lilly & Co. v. Novopharm Ltd.</i>
Court	Supreme Court of Canada
Citation	[1998] 2 S.C.R. 129
url	http://csc.lexum.umontreal.ca/en/1998/1998rcs2-129/1998rcs2-129.html
Patent	Eli Lilly's Canadian patents for nizatidine and its manufacturing process.
Facts	Novopharm took a compulsory license to Eli Lilly's patents. Novopharm reformulated nizatidine into final-dosage form, and sublicensed to Apotex.

	Eli Lilly alleged the sublicense breached the terms of the compulsory license, and the reformulation amounted to creating a new article.
Held	(1) First-sale exhaustion. (paragraph 99.) (2) Any limitations must be clear in the license and clearly brought to the attention of the buyer. (paragraph 100) (3) Reformulation of nizatidine into final-dosage form did not amount to creating a new patented article, since bulk-form nizatidine has no commercial use other than reformulating for end-user consumption. (paragraph 101, 105)