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DECISIONS ON PARALLEL IMPORTS OF PATENTED GOODS

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I. INTRODUCTION

On March 23, 1995, a decision regarding parallel imports was delivered by the Tokyo High Court. [n1] In that case, BBS Kraftfahrzeug Technik A.G. ("BBS") of Germany held both German and Japanese patents for certain aluminum automobile hubcaps. The hubcaps were legitimately purchased in Germany by a Japanese company which was engaged in the export of the relevant goods to Japan where an affiliated Japanese company was engaged in the sale of the goods. These two companies were virtually under the same management when the goods were imported into Japan for sale at a price lower than that charged by BBS dealerships in Japan. Subsequently, BBS filed suit for patent infringement in Tokyo District Court in June of 1994. The district court found that the two companies had infringed the BBS Japanese patent. However, on appeal the judgment in favor of BBS was reversed. In reversing the district court, the High Court held that the patentee's right to enforce its Japanese patent against the imported goods had been exhausted since the patentee had legally transferred title to a legitimate purchaser of the patented product. Because parallel imports of patented goods had previously constituted infringement of patents in Japan, this appellate court decision has invoked substantial controversy.

*568 Prior to the BBS Aluminum Hubcap case in Japan, only one other case, decided in 1969, involved the parallel importation of patented goods. [n2] In that case, the court found the devices at issue to be infringing and enjoined their use. This article outlines the decisions in these two cases. A bibliography of articles relating to the application of the exhaustion doctrine to patented goods is appended to this article for reference.

II. THE DECISIONS

A. Brunswick Corp. v. Orion Kogyo, K. K.

1. Background

This 1969 case was the first case in which a Japanese court addressed the parallel importation of patented goods regarding an automatic installing device for bowling pins. The case involved devices which were first sold in Australia by a sublicensee of Brunswick. Brunswick held both Australian and Japanese patents covering the devices. Before the initial sale, the defendant purchased twenty-two of the used devices in Australia and imported them into Japan. Upon the importation of the used devices into Japan, Brunswick brought suit in Osaka District Court alleging infringement of the Japanese patent.

2. The District Court's Analysis

The Osaka District Court based its decision on the principle of independence or territoriality of patent rights as provided in the Paris Convention for patents registered in different countries. The court was persuaded that causes arising in one country cannot affect the enforceability of a patent registered in another country. The court reasoned that the Australian patent rights regarding the used devices were exhausted in Australia upon the legitimate first sale of the goods. However, since the license granted by Brunswick had not covered the use or importation of the goods in Japan, the enforceability of the plaintiff's Japanese patent was not affected by the legitimate sale of the devices in Australia.

While the court noted that it is generally accepted that the international exhaustion doctrine applies to parallel imports in trade- *569 mark-related cases, the court rejected the defendant's argument that exhaustion should be extended to a patent infringement case.

The court further stated that one who wishes to acquire patent rights in more than one country must file an application in accordance with each country's law and pay maintenance fees in each country to maintain those rights. Thus, even after a patent owner has collected royalties for goods in one country, the owner is still entitled to royalties for the same goods if imported into another country. This is not considered to be an award of double profits.

According to the court, patent rights to certain goods will be domestically exhausted within a country at the time they are legitimately sold. However, this exhaustion doctrine should only apply to the patent in the country where the goods are sold. Accordingly, even when patented goods are legitimately purchased abroad, subsequent importation into Japan does not affect the enforceability of the corresponding Japanese patent to the same invention.

Therefore, the court found that the defendant's use of the imported devices in its business infringed the plaintiff's Japanese patent. The plaintiff's motions for an injunction and request for disposal of the infringing devices were granted.

B. Jap Auto Products, K. K. and Another v. BBS Kraftfahrzeug Technik A.G. [n3]

1. Background

The plaintiff BBS held both a German and a Japanese patent for a new aluminum hubcap which it manufactured. BBS manufactured and sold automobile hubcaps (alleged goods A), and licensed Rorinser to manufacture automobile hubcaps (alleged goods B). The hubcaps were sold in Germany through a licensed dealer, Rorinser. The defendants, Jap Auto Products K.K. and Lacimex Japan K.K., purchased these patented hubcaps in Germany and imported them into Japan for sale. BBS filed suit against both companies alleging infringement of patent rights and sought an injunction and damages.

Before their disputes were brought to court, negotiations were held and the defendants offered, as previously demanded by plaintiff, to stop the importation and sale of the alleged patented goods and to pay *570 3% of sales as a royalty for those patented goods already sold. The plaintiff, however, further demanded that defendants agree not to deal in any of their or Rorinser's products. All attempts to negotiate a settlement failed. A timeline of the patent grants is outlined in Figure 1, an outline of the case is shown in Figure 2, an estimation of damages is shown in Figure 3, and viewpoints on parallel imports decisions are shown in Tables I and II.

2. The District Court's Analysis

BBS argued that the court should apply the principle of patent independence provided for in the Paris Convention, relying onthe reasoning in Brunswick Corp. v. Orion Kogyo, K. K. BBS reasoned the court should not prevent enforcement of the Japanese patent right even though the goods were legitimately purchased in Germany where their corresponding patent right existed.

Like the defendant in Brunswick, Jap Auto Products and Lacimex asserted that the patent right in the aluminum hubcaps was exhausted when the goods were sold in Germany. The defendants argued that once the hubcaps were sold, BBS received a royalty for those goods and therefore should not receive another royalty for those same goods when imported into Japan.

However, the district court refused to extend the international exhaustion doctrine to patented goods reasoning that the doctrine is inconsistent with the primary goal of the patent laws to encourage the full disclosure of inventions in Japan. Accordingly, the court found the importation of the aluminum hubcaps to be an infringement of the Japanese patent. BBS was awarded damages and a permanent injunction against importation of the aluminum hubcaps by the defendants.

C. Jap Auto Products, K. K. and Another v. BBS Kraftfahrzeug Technik A.G. [n4]

1. Background

The defendants filed an appeal before the Tokyo High Court requesting reversal of the district court's decision in this case. The factual background and arguments were the same as those presented before the district court.

*571 2. The High Court's Analysis

The Tokyo High Court reversed the district court's finding that the parallel importation of the aluminum hubcaps infringed the BBS patent. The high court held that the exhaustion doctrine of patented goods should be extended to encompass an international exhaustion doctrine.

Though there is no statutory provision specifying the domestic exhaustion of patent rights from domestic sales of patented products, it has generally been an accepted doctrine of domestic exhaustion in Japan since the Japanese patent laws were drafted. It is clear from section 1 of the Japanese patent code that the patent laws aim to harmonize the protection of the inventor's interest with the public's interest such as in the development of industry. The exhaustion of domestic patent rights resulting from domestic sales strikes an appropriate balance of these competing interests.

Under certain conditions, the High Court further reasoned that a patent holder seeks compensation for each of its patented goods only once. This principle strikes a balance between the inventor's interest and the public's interest. The High Court concluded that what the defendants did with the hubcaps after the initial sale in Germany was of no real consequence to BBS as BBS was compensated for those goods. Thus, the court found no reason to award BBS another royalty simply because the patented goods were taken across national borders.

The High Court essentially extended the doctrine of domestic exhaustion of patent rights to an international exhaustion and further provided possible limits to the holding. For example, the patent owner may not have its patent right exhausted in one country for goods sold in another if the patent owner's opportunity for compensation is limited by law, such as by price control or by imposition of compulsory licensing. In such cases, the propriety of parallel imports must be determined on an individual basis.

III. THE EFFECT OF THE HIGH COURT DECISION

Soon after the High Court decision in the BBS case, the national and financial papers reported on the decision. The case was received with surprise as the decision reversed

Japanese precedent. Further, the decision differed from what had been generally accepted regarding the parallel importation of patented goods.

In order to understand the context of the High Court's decision, the history of similar cases must be reviewed. The first case regarding *572 parallel import of patented goods, Brunswick, was the only finalized decision. By referring to this decision, one can request Japanese customs officials to confiscate parallel imported goods, which the customs officials must accept and implement. The parallel importer may, however, file suit opposing the injunction. One such case regarding Nordica ski boots is now pending and a decision is awaited.

After Brunswick, there were relatively few judicial decisions regarding parallel imports, except for a few cases involving trademarks. Then BBS was decided by the High Court in 1995. Since the Brunswick decision in 1969, the Japanese economy and industry have developed and changed significantly. Japanese commercial transactions have become more internationalized.

The BBS district court decision was delivered in 1994, and ruled that parallel imports of patented goods constitute infringement, following the principles of the 1969 Brunswick case. The grounds, however, were different. In the Brunswick case, the district court concluded the application of the exhaustion doctrine to international transactions was inappropriate. In contrast, the district court in the BBS Aluminum Hubcaps case found such an extension of the exhaustion doctrine inappropriate since the goods were legitimately sold in another country and a corresponding patent existed in that country.

Then the High Court decision permitting parallel imports of patented goods came out in March, 1995. Many of those who support the appellate decision argue that the purpose of the patent laws is attained once the patent owner is provided with the opportunity to be compensated for the disclosure of his invention, provided the alleged parallel imports relate to the patented goods for which patent rights to the same invention exist and that the patent owner is free to set the price of the patented goods for the first sale. However, the mere extension of the exhaustion doctrine of patent rights to international transactions was rejected by the High Court. Thus, even with qualifications, its actual approval of such extension appears unconvincing, thereby creating controversy. Others argue that they support the High Court's conclusion but not its reasoning.

IV. CONCLUSION

According to the High Court decision in the BBS case, parallel imports of patented goods are permitted if patent rights to the imported goods exist both in the country where they are sold for the first time and in the country into which they are imported, and that the patent owner is free to price its patented goods at the first sale. To further judge the *573 appropriateness of the decision as well as the arguments for and against parallel imports we will have to wait for the Japanese Supreme Court decision on this matter. The Supreme Court decision, by interpreting and applying the current law, will attract great

attention both in Japan and abroad. Furthermore, other cases such as the one regarding Nordica ski boots, which involves different conditions for parallel imports of patented goods, should also be noteworthy.

V. BIBLIOGRAPHY

%AD1] Jap Auto Products Kabushiki Kaisha and Another v. BBS Kraftfahrzeug Technik A.G., Ne-No. 3272 of 1994, 1524 HANJI 3 (1995) March 23, 1995. High Court of Japan.

%AD2] Jap Auto Products Kabushiki Kaisha and Another v. BBS Kraftfahrzeug Technik A.G., Wa-No. 16565 of 1992. 1501 HANJI 69 (1992). Tokyo District Court.

[3] Masayuki Koiwai (Sumio Takeuchi General Law Office), Parallel Imports of Patented Aluminum Hubcaps Case, 33 CIPIC 36 (1994).

Summary:

Annotation of the BBS trial court decision discussing the appropriateness of the international exhaustion doctrine of patent rights in comparison with precedent Osaka District Court decision. Given the fact that domestic exhaustion of patent rights is permitted under interpretation of Japanese patent law, this article examines whether or not international exhaustion is also permissible under interpretation of Japanese patent law. The author is the plaintiff's attorney.

[4] Nobuhiro Nakayama (Prof. Tokyo Univ.), Kazunori Ishiguro (Prof. Tokyo Univ.), and Masahiro Murakami (Prof. Yokohama State Univ.), Discussion: Parallel Imports of Patented Goods - With BBS Case As a Turning Point, 1064 JURIST 31 (1994).

Summary:

This article is a discussion on the appropriateness of parallel imports of patented goods and of international exhaustion doctrine, commenting mainly on the trial court decision in the BBS case. The authors conclude that parallel imports should be found legal as a matter of interpretation of patent law, through examining the principles of patent independence by country, parallel imports, and the resulting economic effects. Additional topics discussed include: dividing international markets and monopoly through licensing; dividing international markets and development in technology; relationships with trademark goods; incentive to international licensing; transitional period toward dissolving international price difference; dividing international markets and parallel imports; and patent and trademark rights.

*574 [5] Yoshiyuki Tamura (Assistant Prof. Hokkaido Univ.), Parallel Imports and Intellectual Property, 1064 Jurist 45 (1994).

Summary:

With respect to parallel imports and intellectual property, the author examines the relationship between the principles of patent independence and patent, copyright, trademark, and anti-competition laws. With the viewpoint that the application of international exhaustion to parallel imports of patented goods is unreasonable, the author examines theories that argue for injunction against imports and sales. The author contends that parallel importation may constitute patent misuse because a patent relates to

such a small part of overall goods, and that removing competition among same brand name goods of its own or authorized traders is misuse of right.

[6] Naoki Koizumi (Assistant Prof. Kobe Univ.), Economy and Law Concerning Parallel Imports, Concerning Tokyo District Court Decisions of July 1, 1994 and July 22, 1994, 563 NBL 13 (1994); and 565 NBL 28 (1994); and 567 NBL 31 (1995).

Summary:

This author introduces the trial and appellate court decisions of the BBS Aluminum Hubcap and 101 Dalmatians cases. The author examines the cases from both the standpoint of right holder and the parallel importers. Supporting domestic exhaustion, the author reasons that international exhaustion was permitted because at the time of such active international economic transactions, the place of distribution had no significant meaning. The author also notes that the patent holder is guaranteed the security for trading the patented goods and that the opportunity to be compensated for the disclosure of his invention should be once when multilateral patent rights to the same invention are owned by same person.

[7] Saburo Kuwata (Prof. emeritus Chuo Univ.), Decisions at Trial- Infringement of Domestic Patent by Parallel Imports of Foreign Patented Goods, 1065 Jurist 80 (1994).

Summary:

With respect to the trial court decision of the BBS case, the author explains the background of the decision, summarizes the decision, and criticizes the decisions of both the Bowling Pin and BBS cases. A bibliography of parallel imports as a matter of law in some countries is included.

[8] Haruo Goto, Lecture on the Paris Convention, Japan Institute of Invention and Innovation, pp. 181-84.

Summary:

The author comments on the decision in the Brunswick case.

[9] Hidetaka Aizawa (Lecturer, Tsukuba Univ.), Patents and Parallel Imports, 32 AIPPI 333 (1987).

Summary:

Referring exclusively to the Brunswick case, the author claims that it has been recognized in Japan that patent rights can be enforced in the imported country against parallel imports of patented goods. The article briefly explains the pros and cons of enforcement of such rights.

*575 [10] David Gladwell (Barrister to Chancellor), Exhaustion of Intellectual Property, 32 AIPPI 275 (1987).

Summary:

This article discusses the extent to which Britain has established the exhaustion doctrine developed in German jurisprudence. In case law peculiar to Britain, the author attempts to form generalizations from the precedent decisions regarding exhaustion.

[11] Ladas & Parry, Outline of United States Trade Laws (II), 31 AIPPI 385 (1986).

Summary:

This article introduces notable cases involving the exhaustion doctrine in the areas of trademark, copyright, and patent law. Briefly summarized and explained are three cases that concluded that patent rights would not be exhausted.

[12] Wolfgang Seeger (European and German Patent Attorney), Problems, Accompanied with Enforcement of Patent Rights in Europe, 32 AIPPI, 202 (1987).

Summary:

This article is based on the text used in a seminar regarding West Germany Patent Law Practice, held by AIPPI Japan in December, 1986. It specifies how the exhaustion of patent rights in the EC market is viewed.

[13] Saburo Kuwata (Prof. Chuo Univ.), Patent Right Exhausts Multilaterally? The Point of Dispute in Parallel Patent Cases, 20 AIPPI 140 (1975).

Summary:

This paper introduces theories regarding exhaustion of rights and jurisprudence of parallel imports in EC market, referring to the Negram decision and the Polydor decision.

[14] 2nd Subcommittee of Trademark Committee, Japan Patent Association, The Supreme Court Decisions on Parallel Import of Gray Market Goods, 38 KANRI 1341 (1988).

Summary:

This article notes that in the United States, though parallel imports of gray market goods are prohibited by customs law, customs rules admit exceptions, which have caused the courts confusion. The authors point out that U.S. courts have delivered contradicting decisions in cases which dispute whether or not certain rules violated the law.

[15] Yoshitsugu Harima (Prof. at Law, Kinki Univ.), Trademark Infringement and Cause for Not Finding Violation of Anti-Competition Law and Parallel Imports as Illegal, Case Law and Practice Series, No. 100, 35 KANRI 783 (1985).

Summary:

The author questions and reviews the decision in a trademark case (Tokyo District Court, Wa-No. 8489 of 1979), which rejected a claim for injunction, reasoning that the parallel imported goods have the same origin with the authorized imported goods, and do not confuse the consumers in quality or origin, and thus any claim regarding parallel imported goods is without merits. The decision is discussed in the context of the Nescafe and Parker cases.

*576 [16] 1st Subcommittee of License Committee, Japan Patent Association, The Limit to Enforce Patent Rights to Parallel Importing Goods in EC market: Merck v. Stephar, EC Court of Justice, July 14, 1981, Study of Patent/Anti-Competition Law No. 1, 34 KANRI 445 (1984).

Summary:

The case discussed in this article relates to the exhaustion of patent rights in the EC. The patent holder sold its patented drug in Italy, an EC member country where the drug was not patentable. The drug was subsequently parallel imported. The court ruled that enforcement of patent rights in such case violates the EC rule providing free movement of goods.

[17] Tatsunori Sibuya (Prof. at Law, Tokyo Metropolitan Univ.), Parallel Imports of Patented Goods, Tokyo News, Nov. 9, 1994.

Summary:

This article analyzes the BBS and Nordica cases. In the Nordica case, an Italian ski boots manufacture argued for an injunction of parallel imports of its latest model to Tokyo Customs Service, which accepted it and confiscated the goods on September 7, 1994. The author explains the relationship between the principle of patent independence and the grounds of admitting international exhaustion doctrine (prevention of double profits, the customized fact, and standpoint emerging on new law).

[18] Software Committee of 1994 Japan Patent Attorneys Association (Hitoshi Otaki; Hideyo Sato; and Shinichi Abe), Patent, 48 KANRI 62 (1995).

Summary:

This article discusses the parallel import of patented goods and software and discusses the BBS and 101 Dalmatians cases. It notes that in future decisions which permit parallel imports, the qualifications should be watched closely, since whether or not parallel imports should be permitted is basically a matter of harmonization of guarantee/security to the intellectual property right holder of collecting investment and the public interest considering international price differences.

[19] Shusaku Yamamoto (Shusaku Yamamoto Patent Law Offices), Case Notes: Japan: Parallel Imports Do Not Constitute Patent Infringement, 4 IP ASIA, 29 (1995).

Summary:

The BBS case is outlined and commented upon in this article. The author points out that the decision was accepted with surprise and expresses objections to the decision.

[20] Harold C. Wegner (Prof. at Law; Director of the Intellectual Property Law Program), Japan Violation of Patent Trade Principles - Impact, Consequences and Dealing with the Decision Permitting Patent Parallel Imports into Japan, Dinwoodey Center White Paper, April 28, 1995.

Summary:

This article is a thesis by Dr. Wegner, one of the authorities in this field of law, and is offered by one of the members of PIPA study group, Mr. Koyama. While not discussing the BBS decision and its logical development, the article discusses the damages presumably caused by the parallel imports.

*577 [21] Saburo Kuwata (Prof. emeritus, Chuo Univ.), Parallel Imports of Patented Goods - Approving Decision by Tokyo High Court, 40 AIPPI 362 (1995).

Summary:

This article praises the BBS decision which accorded with the author's own longtime assertion.

[22] Japanese Appellate Court Permits Parallel Imports Of Patented Goods, 49 PAT. TRADEMARK & COPYRIGHT J. (BNA) 1225, Apr. 20, 1995.

Summary:

This article analyzes commentary on the BBS appellate court decision noting that authorized dealerships will be hit hardest if the ruling is affirmed by the Supreme Court. Also discussed is the point that recent U.S. court decisions on parallel import have primarily concerned trademark and copyright interests. As for patent cases involving parallel imports, U.S. courts have refused to apply the international exhaustion doctrine.

[23] Tetsuro Ikuta and Hideo Nakoshi, High Court Decision Which Admitted Application of International Exhaustion Doctrine for the First Time and Found That Parallel Imports Do Not Constitute Patent Infringement, 92 INVENTION 60 (1995).

Summary:

The authors provide a brief explanation of the BBS case, commenting shortly that the decision may be appropriate and widely accepted to reflect the current realities of international transactions.

[24] Additional Articles:

Nikkan Automobile Shinbun, Aug. 19, 1994; Mar. 25, 1995.

Nikkei Industrial Shinbun, Mar. 30, 1995.

Nippon Keizai Shinbun, Mar. 23, 1995; Apr. 4, 1995.
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[Tables]

[na1]. Nanao Naoko, Patent Department at Suntory Limited, Osaka University; Koyama Takahiro, Patent Management at Daicel Chemical Industries LTD, Osaka University; and Sudo Hiromi, R & D Management Department, Patent Technical Group at Nippon Telegraph and Telephone Corporation, Kyoto University. Presentation at 26th International Congress of Pacific Intellectual Property Association (PIPA), October 1995. PIPA is an international organization of corporate intellectual property professionals from the United States, Japan and Canada.

[n1]. Jap Auto Products, K. K. and Another v. BBS Kraftfahrzeug Technik AG, No. 3272 of 1994, March 23, 1995.

[n2]. Brunswick Corp. v. Orion Kogyo, K. K., 1 Mutaishu 160 (1969).

[n3]. Tokyo District Court July 22, 1994 (Hanrei Jihou 1501.72; Hanrei Times 854.84).

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