
ALUMINUM WHEEL PARALLEL IMPORTATION CASE

*Japanese Supreme Court Case No. Heisei 7 (O) 1988
Decided by Third Petty Bench on July 1, 1997*

APPELLANT: BBS Kraftfahrzeugtechnik AG

APPELLEE: KK Lassimex Japan

The Aluminum Wheel Parallel Importation Case (Tokyo High Court; March 23, 1995; Case Number Heisei 6 (Ne) 3272) has been followed closely as a case wherein the parallel importation of genuine articles protected by a patent was acknowledged as not constituting patent infringement. On July 1, 1997, the Japanese Supreme Court released a decision dismissing the appeal and effectively allowing parallel importation under certain circumstances.

SUMMARY OF FACTS

BBS (the appellant), a German manufacturer of automobile wheels, holds Japanese Patent No. 1629869 (Present Patent) directed to an invention entitled “Wheels for Automobiles”, and holds counterpart German Patent No. 83-05259.2 on the same invention. The parallel importer (Appellee A) bought products belonging within the technical scope of the patented invention manufactured after the counterpart German patent came into effect, imported these products to Japan (parallel importation), and sold them to a dealer in Japan (Appellee B). BBS brought a lawsuit against the importer and the dealer in Japan, demanding the payment of compensatory damages and an injunction on the importation of the products on the basis of the Present Patent. The demand in the first trial decided in the Tokyo District court was allowed. The losing party then appealed the decision to the Tokyo High Court, which issued a decision approving of parallel importation.

SUMMARY OF DECISIONS

Tokyo High Court

The Appelles argued that the effectiveness of the Present Patent was lost when the Appellant lawfully distributed the products in Germany, and therefore that the

importation of the products into Japan and their sales in Japan do not constitute acts of infringement (this is often referred to as the international exhaustion of patent rights).

The Tokyo High Court found as follows:

Since the patentee can be considered to be ensured an opportunity to receive compensation for public disclosure of the invention if he is allowed, albeit in a foreign country, to decide the price of the product which is protected by the patent including compensation for public disclosure of the invention by his own free will at the time of distribution, the benefits to the patentee in this case are the same as in the case of domestic exhaustion. That is, from the practical stance of ensuring harmonization with the advancement of industry by ensuring the patentee a single opportunity to receive compensation for public disclosure of the invention which is the foundation on which the doctrine of domestic exhaustion is based, there are no outstanding differences between distribution whether inside the country or outside the country. Therefore, no reasonable grounds can be found for bestowing a second chance to receive compensation for public disclosure of the invention simply because international borders have been crossed.

Of course, since there is a possibility that the above-mentioned grounds for acknowledging the exhaustion of patent rights to the products could be lost if the opportunity for the patentee to receive compensation for public disclosure of the invention is legally controlled by price restrictions or compulsory implementation, the present arguments naturally cannot be applied to all cases.

Turning to the present case, there is no dispute between the concerned parties with regard to the facts that the Appellee (BBS) holds a German patent on an invention identical to the Present Invention, and that the Present Products were lawfully distributed in Germany. According to these facts, the Appellee clearly was already ensured a single opportunity to receive compensation for public disclosure of the invention. When considering also that there is no evidence in the present case to support that such an opportunity to receive compensation was legally controlled, it is appropriate to hold that the Present Patent was exhausted with respect to the Present Products upon their lawful distribution in Germany.

Supreme Court Decision

The decision of the Tokyo High Court was approved, for the following reasons:

- (1) Article 4^{bis} of the Paris Convention denies the mutual dependence of patents, and provides that the patents of each country are not influenced by the generation, changes, nullity, forfeiture and terms of enforcement by patents in other countries. However, the provision does not extend to problems of whether or not a patentee may enforce a patent under certain circumstances. Additionally, the Principle of

Territoriality holds that the establishment, transfer and effectiveness of patents are determined by the laws of each country, and that the effectiveness of a patent does not extend beyond the borders of the country of origin.

Therefore, in the present case where the patentee wishes to enforce his Japanese patent rights within the borders of Japan, neither Article 4^{bis} of the Paris Convention nor the Principle of Territoriality can be relied upon to decide how the fact that the products which are the subject of the patent enforcement have been transferred by the patentee outside the borders of Japan should be considered in judging whether or not the patent may be enforced, and this is a problem which should be left solely to interpretation of the Japanese Patent Law.

- (2) The domestic exhaustion of patents is approved because (a) the protection of inventions by the Patent Law must be harmonized with the benefits to society; (b) if products are obstructed from circulating freely in the market (by not acknowledging exhaustion) and the smooth flow of patented products is prevented, then this results in reductions in the benefits to the patentee himself, and violates the goal of the Patent Law “to encourage inventions by promoting their protection and utilization, and thereby to contribute to the development of industry”; and (c) there is no need to allow the patentee to receive compensation a second time during the circulation process on products which were already once transferred by the patentee or a licensee.

However, the same reasoning does not apply to the Doctrine of International Exhaustion. That is, a patentee does not necessarily own a counterpart patent in the country in which the transfer of the patented products took place, and even if a counterpart patent does exist, a patentee cannot immediately be said to have received benefits twice simply because he has enforced rights based on a Japanese patent with respect to products which were already protected by a counterpart patent held in the country in which the transfer took place, when considering that the patent held in Japan and the counterpart patent are independent.

- (3) When considering the adjustment of the balance between the rights of patentees and the flow of products by international transactions in view of the circumstances of modern society in which international economic transactions are spreading widely and progressing to higher levels, the free flow of products including importation must be respected to the maximum possible extent even in cases in which dealers in Japan import products sold abroad and place them on the market in Japan. In economic transactions which take place abroad, it is also generally assumed that a transferor transfers all of the rights held on the object of transfer to the transferee, and the transferee receives all of the rights held by the transferor. When this is regarded in view of the circumstances of international transactions in modern society as described above, it can be naturally predicted, even in the case where a patentee transfers a patented product abroad, that the transferee or a third

party who has received the patented product from the transferee could import the product into Japan for business purposes, and use the product or further transfer the product to another party for business purposes inside Japan.

Bearing in mind the points described above, if a party holding a patent in Japan or a party which can be regarded as an equivalent thereof has transferred a patented product abroad, it is appropriate to hold that the patentee may not enforce the patent on the product in Japan with the exception of cases in which, with respect to the transferee, the transferee has agreed to exclude Japan from the sales destinations and regions of use of the product, and with respect to third parties who have received the patented product and subsequent receivers, an agreement such as described above has been made with the transferee and this is clearly indicated on the patented product.

When considering that it could be naturally predicted in the case where a patented product has been transferred abroad that the product could subsequently be imported into Japan, if a patentee has transferred a patented product abroad without marking the product with some kind of reservatory indication, then the transferee and subsequent receivers should be understood as having received implied consent to the right to control the product without being restricted by the patent held by the transferor in Japan. On the other hand, with regard to the rights of the patentee, the patentee may reserve the right to enforce the Japanese patent upon distributing the patented product abroad (if the patentee has made an agreement with the transferee at the time of the transfer to exclude Japan from the sales destinations and regions of use permitted for the patented product and this is clearly indicated on the product, subsequent receivers would be capable of recognizing that such a restriction has been placed on the product even if other parties were involved in the process of circulation of the patented product, and would be capable of deciding by free will whether or not to purchase the patented product in the presence of such a restriction).

COMMENTS

The District Court, High Court and Supreme Court were all agreed that the Principle of Patent Independence provides that the nullity, forfeiture and duration of the patents of each country do not influence the patents of other countries, and that the Principle of Territoriality provides that the applicability and power of laws extends only within the borders of each country.

Additionally, the District Court, High Court and Supreme Court also agreed that the reason for acknowledging the Doctrine of Domestic Exhaustion is that the patentee is guaranteed an opportunity to receive the benefits which the patent provides at the time the patentee places the products protected by the patent into circulation (prohibiting secondary benefits), and that considering subsequent use of the products to be

infringement would present an obstacle to their flow, thereby inhibiting the advancement of industry (safety of transactions).

However, the District Court held that the patent systems of each country are independent, therefore that the systems for bestowing exclusive rights to the patentees as compensation for public disclosure are also independent, that there was no conscious intent to accept the Doctrine of International Exhaustion at the time the Patent Law was established, that “importation” should be understood as including genuine articles, and that no conditions have arisen such as to hold that allowing the parallel importation of genuine articles protected by patents is in compliance with the Patent Law. The High Court held that the reasons for accepting the Doctrine of Domestic Exhaustion (that the patentee is guaranteed an opportunity to receive compensation when the products are placed into circulation) apply also to the case in which the products are placed into circulation abroad, and that “importation” can be restrictively interpreted to be similar to “transfer” under the Doctrine of International Exhaustion.

In contrast, while the Supreme Court denied the admissibility of international exhaustion, it held that the enforcement of the patent in Japan could not be allowed because this would prevent free circulation of the products by routes including importation, but also held that the patent in Japan could be enforced by means of an agreement made between the patentee and the transferee at the time of initial transfer. That is, the following conditions are required in order for a patentee to be granted an injunction on parallel importation on the basis of a Japanese patent:

- (1) Upon initial transfer of the products protected by the patent, the patentee and the transferee must agree to exclude Japan from the sales destinations and regions permitted for use of the products.
- (2) The products must be clearly marked with a reservatory indication to the effect that Japan is excluded from the sales destinations and regions permitted for use of the products.