

Parallel Import Of Patented Goods Into Japan

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BBS case is analyzed, with discussion of major issues, views of learning professionals' special

The Japanese Supreme Court opened its door for parallel imports of patented products from one or more countries of imported source.

On July 1, 1987, the Japanese Court of Japan handed down a long-awaited decision in *BBS Kraftfahrzeug Technik AG v. B.K. Igi-Auto Products, et al.* (BBS Case).¹ The Supreme Court concluded that parallel imports of patented goods did not infringe a relevant patent in Japan.

In the BBS case, the Supreme Court upheld the lower court's finding that the issue of parallel imports is a matter of interpretation of domestic patent law and has nothing to do with the principle of patent independence and territoriality. Interestingly, however, the Supreme Court introduced a new mechanism to restrict parallel imports.

This article overviews the BBS case and analyzes the Supreme Court's decision. This article also discusses issues created by the decision, with an emphasis on learning.

OVERVIEW OF THE BBS CASE

BBS Kraftfahrzeug (BBS) was a German patent relating to automobile wheels and its corresponding patent in Japan. Until August 1983, Igi Auto purchased aluminum wheel products in Germany and imported them into Japan for resale by Kacifico in Japan. The aluminum wheel products were manufactured and sold by BBS and its licensee under its German patent. The aluminum wheels imported as genuine products fell within the scope of the BBS's patent in Japan. BBS filed a suit against Igi-Auto and Kacifico before the Tokyo

District Court.

The District Court Decision

In its July 22, 1986, decision, the Tokyo District Court found that the principle of patent independence and territoriality were irrelevant to determining whether parallel imports of patented goods are permissible. While admitting domestic exemption as an established theory, the court refused to apply this theory to international trade because there were no applicable statutory provisions under Japanese law. A reasonable interpretation, the court said, was that parallel importation fell within the category of "import" as defined under Japanese patent law. With respect to the potential influence on learning, the court said that parallel imports would have a chilling effect, but refrained, in view of the lack of evidence, from finding that such influence was definite. With respect to Defendants' arguments that parallel imports would consequently contribute to the development of industry, the court did not have the argument. Although the grounds were different, the conclusion of the District Court was consistent with the case law established by the Ruling The State case.²

The Defendants appealed to the Tokyo High Court.

The High Court Decision

The Tokyo High Court overturned the District Court decision. The High Court, in its March 23, 1985, decision, affirmed the finding of the District Court that the principle of patent independence under the Paris Convention and the principle of territoriality are irrelevant to the analysis of permissibility of parallel imports. Recognizing that the issue of parallel imports was a matter of interpretation of Japanese law, the

High Court concluded that since the patented goods were legitimately placed on a foreign market, the fact of introducing would be considered as a factor to prevent the corresponding Japanese patent from being enforced in Japan. This finding was clearly based on the theory of so-called international exhaustion.³

The patentee appealed to the Supreme Court.

THE SUPREME COURT DECISION

Independence of Patent and Territoriality

With respect to the issues of patent independence and territoriality, the Supreme Court agreed with the importation of the issue exists that the issue of parallel imports is a matter of Japanese law, and that it had nothing to do with the two principles in question. The Supreme Court stated as follows:

When a patentee exercises patent rights in Japan, would such acts that a product subject to the patent right was already sold outside Japan to the parties of the like, affect exhaustibility of the Japanese patent right? This question is a matter of interpretation of the Japanese Patent Law which is subject to the Paris Convention and the principle of territoriality. It is clear from the foregoing that any interpretation in the negative, which is interpretation in effect, is not in the interests of the protection of Article 1bis and the principle of territoriality.⁴

Exhaustion Theories

Under its patent right, the patentee has an exclusive right to market its patented products. However, once the patentee placed its patented products on markets in a certain country, it is not in a position to continue its patent against subsequent buyers of the product within that country. This is called

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the theory of domestic exhaustion and the court clearly agreed that domestic exhaustion was an established principle under Japanese law. However, the court refused to apply it to international transactions automatically, by saying:

However, the rationale for the theory of domestic exhaustion cannot be automatically applicable to the case where a purchaser of a Japanese patented article in patented products enters Japan, because, in that case, the purchaser has not bought the article in question in violation of the Japanese patent. . . . Even if the purchaser were the subsequent purchaser, it should be noted that it failed to buy in violation from its counterpart patent in the country where the sale took place.¹⁷

Balance With Interest of Free Trade

While deriving the automatic application of the exhaustion theory to the international arena, the Supreme Court needed to take into account public interests in balance with that of the patent owner. In order to limit the exclusivity of the patent right, the court accepted a rationale that an implied license is well suited to the buyer along with the purchased goods. The court stated:

Freedom of trade including freedom of export should be paid utmost respect unless a dealer in Japan imports a patented product (article) in a foreign country to put it at a distribution channel in Japan. Through domestic transactions outside Japan, a seller transfers the right. . . . In a case, The buyer enters Japan with the purchased article, even though he transfers all rights that the seller transferred to him upon the purchase. . . . It is naturally recognized that the buyer is automatically exempted from the Japanese patent law, and consequently it is well to be allowed to buy.¹⁸

Essentially, this notion has been considered as a basis for the theory of international exhaustion. Although the court denied the application of the domestic exhaustion theory to the international theory, the court substantially relied on the underlying notion that the exclusive right of the patent owner has to be somehow limited in view of the public interest. This led the court to conclude that if a patent owner in Japan sells its patented product outside Japan, the patent owner should not be allowed to enforce its patent in Japan against the buyer. Thus, parallel imports were admitted.

Implied License

However, the court introduced a mechanism to regulate parallel imports under specific conditions. Where there is an explicit agreement between the parties of a transaction as a limited licensee for sale, and where such limited license is clearly marked on the products, parallel imports are not allowed. The mechanism of exemption was explained by the court as follows:

With respect to the right of the patentee, it is permissible for the patentee to reserve the right to enforce its patent in Japan when the patentee sells the goods (article) in Japan. In the case where the buyer explicitly agrees with the patentee to an exclusive sale of Japan from the place of sale outside of Japan (imported), and such exclusive sale is clearly marked on the products, the subsequent purchaser will be presumed to be with the product in respect to certain restrictions with respect to their products. . . . They can fully decide whether or not to buy patented products, taking into account the presence of such restriction.¹⁹

UNCLARITIES CREATED BY THE DECISION

Limited License

In general, limited licenses under intellectual property rights entitle consumers about violating competition laws. For that reason, the Japanese Fair Trade Commission issued a guideline on patent and know-how licenses in 1995, which categorized arrangements and clauses that might constitute violations of the Anti-Monopoly Law of Japan.²⁰

Under the 1995 guideline, arrangements for sales restrictions are generally considered gray clauses. If a sales restriction aims at maintaining the resale price or if such restriction is performed by a licensee to exclude competitors from the market, it could be considered illegal under competition law in Japan.

The Supreme Court stated that the patentee reserves a right to limit sales licenses for patented goods. Thus, even the patentee wants to limit the sales license, the limited license is applicable to downstream transactions of the goods at issue. Probably, the limited license would be permissible if the license is agreed upon between the patentee and a first buyer because the buyer

is in a position to say "no" to the limited license, if the limitation is not satisfactory to him. However, what happens if the limited license is forced to a second buyer and subsequent purchasers? Is such limitation still allowable?

An answer to this question would rest on the establishment of adverse effects of such limitation to competition. Nevertheless, it may be safe to say that there is a potential inconsistency conflicts with competition law. In the Supreme Court decision, there was no discussion about potential conflicts with competition law.

Notice Requirement

In the 1995 case, another requirement for prohibiting parallel imports was introduced, namely "notice," which respect to the "notice" requirements, the court did not elaborate on how and where the notice be placed on the goods at issue. There are no indications with respect to the required language and location. Given a lack of guidance on drafting requirements, disputes regarding the notice requirement may arise and these disputes will have to be addressed through the courts.

In the United Kingdom, where implied license has been established as a basis for parallel imports, there are still arguments about the sufficiency of language as a marking (see, *Revised Guide to Drafting Patents* 1M.7).

CONCLUSION

Shortly after the Tokyo High Court decision, LES Japan conducted a questionnaire among 143 Japan members asking how LES Japan members reacted to the decision that first accepted parallel imports on international exhaustion. There were 112 answers collected, out of which 16 are from mechanical industries, 10 from metal, 13 from electric, 37 from chemical, 4 from food, 2 from trading houses, 16 from attorneys (general practice and patent), and 14 from others.²¹

The first question was: "Which do you support, (a) parallel imports of patented goods without condi-

tion; (b) Japanese patents should be enforceable irrespective of how the goods were placed on the market in an exporting country; or (c) admissibility of parallel imports be determined on a case-by-case basis. The results were as follows: 11 members selected choice (a), 38 members selected choice (b), and 47 members selected choice (c).

It is worth noting that more than half (58) supported parallel imports (with or without conditions). Apart from the legal issues discussed before the courts, other criticisms to the Tokyo High Court decision

were centered around its adverse effects to the pharmaceutical industry. Interestingly, the answers from chemical industries spread into 1, 19 and 38. If the (a) and (c) are combined with each other, the supporters and the opponents were almost equal.

Likewise practitioners apparently tend to favor stronger protection of patent rights. Given such a pro-patent inclination, it is interesting to learn that more of the questionnaire results than the answers supported parallel imports.

NOTES

¹ Full English translation of the decision by the court is published in *JIPPI* (International Patent), Vol. 22, No. 4, 1992, pp. 364-368.

² *Pharmaceutical Corp. v. Hoechst Aktiengesellschaft*, [1992] 1 All E.R. 570 (House of Lords) (referred to as *Hoechst* here). It had been originally manufactured outside Japan by an exclusive licensee because was found violating the Japanese patent system.

³ Full English translation of the Tokyo High Court decision is published in *JIPPI* (International Patent), No. 3, 1991.

⁴ *Supra* note 1, p. 367.

⁵ *Id.* p. 367.

⁶ *Id.* p. 367.

⁷ *Id.* p. 367.

⁸ [1992] 1 All E.R. 570.

⁹ The question was raised to about 400 respondents in 1991-1992. The response rate was about 25%.