

2. Parallel Importation of Patented Goods

Jap-Auto Products K.K. and Lacimex Japan Co., Ltd. v. BBS Kraftfahrzeug Technik A.G., Tokyo High Court, March 23, 1995, Case No. 94(ne)3272

Appeal from the Tokyo District Court finding that parallel imports infringe patent rights in Japan.

FACTS

1. BBS Kraftfahrzeug Technik owns German and Japanese Patents relating to aluminum automobile wheels. Jap-Auto Products K.K. purchased patented aluminum wheels which BBS and its licensee manufactured in Germany, and imported them into Japan. The imported wheels were then sold to Lacimex Japan for resale in Japan.

2. Neither the party claimed that the imported wheels did not fall within the scope of both the German and Japanese patents. BBS had granted a non-exclusive license to other auto manufacturers in Japan for which the royalty rate is 7% of the ex-factory price.

3. There was no argument about Lacimex's sales amount in Japan, which totaled ¥68,870,136.

4. BBS brought suit against Jap-Auto and Lacimex (hereinafter "Jap-Auto" collectively) before the Tokyo District Court, claiming patent infringement and damages.

Tokyo District Court

1. With respect to the infringement issue, the district court analyzed whether parallel importation should be an exemption from patent infringement. Given the lack of any explicit statutory provision to allow such an exemption, the court found that the legislative intent was instead that the doctrine of exhaustion apply. Otherwise, the court said, the patent system would not contribute to "balancing the interests of the patentee and the public." However, the court declined to apply this doctrine to this type of international case where two separate patents are involved.

2. The court awarded a reasonable royalty in the amount of ¥4,820,909 (¥68,870,130 × 0.07).

Jap-Auto appealed to the Tokyo High Court against this judgment.

Tokyo High Court

In addition to the arguments elaborated before the district court, in its arguments to the high court Jap-Auto used the example of German cars with BBS wheels which have been parallel-imported into Japan. Jap-Auto pointed out that one of the reasons for such parallel imports is a regulated market in Japan resulting in a large gap between commodity prices in and out of Japan. In response, BBS argued that higher prices are justified because they are needed

to maintain quality control.

The High Court, in an opinion coming only eight months from the lower court decision, which is unusually quick, reversed the decision of the lower court and concluded that Jap-Auto did not infringe BBS's patent in Japan. The court elaborated the reasons for its decision as follows.

1. Under the principles of patent independence and territoriality, the validity of a patent in Japan should be interpreted under Japanese patent law. It is a matter of interpretation of Japanese patent law whether to consider the sale of patented goods in a foreign country in determining the scope of a counterpart patent in Japan. This interpretation does not conflict with the requirements of the Paris Convention.

2. The patent law aims at contributing to the development of industry by providing inventors with patent protection. Patent protection has to be balanced against the public interest. In view of this purpose of the patent law, the court stated:

"If the scope of a patent is extended to goods whose first sale has been legitimately done, such an extension would unfairly increase the value of patent and eventually result in the loss of harmony with the public interest, which is achieved by the development of industry.

"Unless there are statutory regulations, patentees can determine the price of their patented goods at their option. Thus, they can include in their price remuneration for the disclosure of their invention when they sell their goods. There are no reasonable grounds for the patentee to seek a double reward after such a sale."

3. The court did not find any substantial reason for distinction between international exhaustion and domestic exhaustion.

"Because a patentee, irrespective of where it is, is in a position to set its own price for its patented goods, the chances to recoup the necessary reward for dissemination are secured. . . . In terms of balancing the interests of the public against that of the patentee, there is no difference in theoretical basis for the application of the domestic exhaustion or international exhaustion. . . . Highly enhanced international trade would strengthen the legitimacy of the latter."

4. It is well known that parallel importation has been taking place in Japan for years. There is no evidence that technological development has been adversely affected by such parallel importation. Thus, there are no grounds to assert that permitting parallel importation into Japan has weakened the incentive for Japanese companies to obtain licenses under foreign patents.

5. As for the allegations regarding insufficient quality controls in the case of parallel imports, that is not a matter of patent law, but instead is a matter of business morale and good-will of people engaging in the business.

6. Lack of international agreement on the permissibility of parallel imports is not relevant to the present case. Each country has its own laws and interpretations of those laws taking into account that country's own historical, economical and technological circumstances.

COMMENT

The High Court's decision is noteworthy because it would widely open the door for parallel importation of patented goods. Unlike trademark cases, there is only one prior court case in 1969 which found infringement of a Japanese counterpart patent by parallel importation. Since that case, business circumstances surrounding international trade have drastically changed in Japan, and as reflected in the Tokyo High Court decision, they now economically justify parallel importation.

Despite the decision of Tokyo High Court, the customs authority has recently announced its decision to follow the traditional approach supported by the decision of the lower court in carrying out custom practice. Moreover, it is reported that the Tokyo High Court decision in this BBS case will be appealed to the Supreme Court.

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