

Patent Infringement by Cross-border Acts: Introduction and Analysis of Recent Case Law in Japan

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1. Introduction

Under the principle of territoriality,¹ the patent system operates on a country-by-country basis² wherein patent rights are effective only within the territory of the country of registration. Therefore, whether interrelated acts across a national border (referred to as “cross-border acts” in this article) could infringe a patent has long been a pertinent issue. With the globalization of economic activities, the spread of the Internet, the development of the Internet of Things (IoT), and the expansion of services via networks, this issue has become even more important.

A typical scenario that highlights this problem occurs when some elements or steps in relation to a system or process patent are performed in a foreign country. The strict interpretation of the territoriality principle requiring the act of infringement to be completely carried out within the country of registration would lead to a situation in which infringement cannot be charged in any jurisdiction, albeit the patented invention being used without

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1) We will discuss this principle in 3 (1).
2) As an exception, in the case of a regional patent system, it is established in several countries and the patent right under such a system is recognized as valid in those countries.

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authorization. Therefore, it becomes imperative to explore how to deal with this issue in order to ensure effective patent protection.

In Japan, such a cross-border issue was dealt with in a case where a part of a process invention was performed overseas.³ Furthermore, cases have recently emerged focusing on whether patent infringement would occur when constructing a system or providing a program using an Internet network was performed across national borders. The same parties contested this issue in two pieces of litigation before the Intellectual Property High Court (IP High Court). In particular, the May 2023 decision has attracted public attention partly because it was a Grand Panel decision handed down by the Special Division of the IP High Court.⁴ This article will discuss these IP High Court decisions.

2. Introduction of Cases and Judgments

(1) Introduction to the two cases

The two cases discussed in this article were both brought by Dwango, Co., Ltd. (hereinafter referred to as the “Plaintiff”), a Japanese corporation, against FC2, Inc. (hereinafter referred to as “Defendant 1”), a U.S. corporation, and Home Page System (HPS), Inc. (hereinafter referred to as “Defendant 2”), a Japanese corporation (Defendant 1 and Defendant 2 are collectively referred to as the

“Defendants”). The Plaintiff’s patent rights that are the basis for the claims in the two cases relate to a function in a video distribution service that allows users to exchange comments on a video screen display. Defendant 1 provides video delivery services on the Internet that enable users to place comments on the screen. Since its web server, comment delivery server, and video delivery server are located in the U.S., the cross-border nature of the acts became an issue.

(2) Case No. 1 (device and program patent case)

The basis of the claim in the first case is the Plaintiff’s patent right entitled “Display device, method for displaying comments, and program.” The Plaintiff alleged that the programs used in the Defendants’ services (“the accused programs”) and the information processing terminals in which the programs were installed (“the accused devices”) were within the technical scope of the patented invention of each patent right and that the production and use of the accused devices, as well as the production, transferring, and offering to transfer the accused programs by the Defendants, infringed the respective patent rights.

In the first instance, the Tokyo District Court dismissed the claim on the grounds that the accused devices and programs were not within the technical scope of the invention.⁵

3) Tokyo District Court, September 20, 2001, Hanrei-Jiho No. 1764, p. 112, Heisei 12 (wa) 20503 (*method of electrodeposition image formation*). In a case concerning the invention of a process consisting of six steps where the defendant performed the initial five steps leading to the creation of products that were subsequently sold to third parties who then performed the sixth step of the process, the court found infringement of the patent right when the sixth process was performed domestically. This decision relied on the so-called “tool theory,” attributing the sixth step to the defendant. Conversely, the court determined that if the defendant’s products were exported and the sixth step was performed outside Japan, the defendant had not completed all the steps of the patented process

within Japan’s territory and thus did not infringe the patent right. The court affirmed direct infringement in Japan as stated above but did not find the fact of exportation of the accused product. Therefore, the issue regarding the cross-border implementation of a process was relatively unimportant in this case.

4) In addition, the newly introduced third-party opinion solicitation system (i.e., a Japanese version of the amicus brief system based on Article 105-2-11 of the Patent Act) was used for the first time.

5) Tokyo District Court, September 19, 2018, Heisei 28 (wa) 38565.

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In contrast, the IP High Court, the appellate court, affirmed the fulfillment of the constituent features of the patented Invention 1 (while denying the fulfillment of the constituent features of the patented Invention 2), and found direct infringement of the patent right 1 by (1) providing the accused programs through telecommunication lines, (2) offering to provide the said programs, and (3) producing Defendants' Program 1. In addition, the IP High Court found (4) indirect infringement of the patent right 1 by providing the accused programs. The court thus partially accepted both the request for an injunction and the claim for damages by the Plaintiff.⁶ The crucial part of the decision relevant to the topic of this paper is quoted below.

"Japan adopts the so-called principle of territoriality with respect to patent rights, according to which the patent rights of Japan are effective only in the territory of Japan [...]. And, looking at the delivery in question formally and analytically, we can recognize that the accused programs are transmitted over a telecommunication line (including the server on which the accused programs are stored) in the territory of the United States, over a telecommunication line (including the terminal equipment used by the user) in the territory of Japan, and over a telecommunication line in the territory of neither the U.S. nor Japan. Therefore, it is undeniable that not all of the transmissions are completed in the territory of Japan.

However, if the act of provision in question must be formally completed entirely within the territory of Japan for patent infringement to be established for inventions that can be transmitted over a network, such as Inventions 1-9 and 10, those who attempt to implement such inventions would easily escape liability for patent infringement by, for example, moving some facilities such as servers out of the country. In today's digital society, where many useful

network-related inventions exist, allowing such an evasive act would be extremely unjust. On the other hand, even if all the elements of the working of a patented invention are not formally completed in the territory of Japan, if, from a substantive and overall viewpoint, the working can be regarded as having been performed in the territory of Japan, giving the Japanese patent right effect to such working would not violate the aforementioned principle of territoriality.

Therefore, with respect to the act of provision in question, if the provision can be regarded as being made in the territory of Japan from a substantial and overall viewpoint, taking into consideration various circumstances including whether the part of the provision performed outside the territory of Japan can be clearly and easily distinguished from the part performed within the territory of Japan, whether the control of the provision is made in the territory of Japan and whether the effect of the patented invention obtained by the provision is manifested in the territory of Japan, it is reasonable to conclude that the provision constitutes 'provision' as defined in the Japanese Patent Act.

In this case, the delivery is initiated and completed when a user located in the territory of Japan accesses the website pertaining to Defendants' respective services [...]. It is difficult to clearly and easily distinguish between the part of the delivery that takes place outside the territory of Japan and the part that takes place within the territory of Japan, and the control of the delivery is performed by a user located in the territory of Japan, and the delivery is directed to a user located in the territory of Japan who desires to view the videos. Moreover, it is only through the delivery that the user located in the territory of Japan is able to view the video with comments, etc. pertaining to Inventions 1-9 and 10, and the effects of Inventions 1-9 and 10

6) IP High Court, July 20, 2022, Heisei 30 (ne) 10077. The author discussed this decision in detail in Masabumi Suzuki, "Patent Infringement through Use of Servers

Located outside Country: *Dwango v. FC2 Case*," *Patents & Licensing* Vol. 52, No. 4, 6 (2023).

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obtained through the delivery are manifested in the territory of Japan. In light of these circumstances, it is reasonable to evaluate that the delivery in question was made in the territory of Japan, when examined from a substantial and overall viewpoint, even if some parts of it were made outside the territory of Japan.”⁷

(3) Case No. 2 (System patent case)

(a) Related patent rights and claims

The basis for the claim in the second case is the Plaintiff’s patent right entitled “Comment Delivery System.” The patented invention relates to a comment delivery system characterized in that users’ comments are displayed on a video on the display device of the terminal of a user viewing the video via the Internet in a manner that they move horizontally and do not overlap each other.

The claims of the patent in question comprise Claims 1 to 13, and the invention at issue in this case is the invention described in Claims 1 and 2 (Invention 1 and 2). Invention 1 can be divided into the following constituent features (The line breaks are according to the decision of the IP High Court).

1I. A comment delivery system,

1A. which is a comment delivery system including a server and a plurality of terminal devices connected to the server via a network, in which

1B. the server

receives a first comment and a second comment to a video given by a user who is

viewing the video transmitted from the server; and

1C. transmits the video and comment information to the terminal device;

1D. the comment information includes:

the first comment and the second comment; and

a comment given time, which is a video play time indicating an elapsed time of the video with a beginning of the video as a reference, corresponding to a point of time when each of the first comment and the second comment is given, comprising:

1E. means for displaying the video and the first comment and the second comment at least partially overlapping the video and moving in a horizontal direction on a display device of the terminal device in a video play time corresponding to the comment given time on the basis of the video and the comment information;

1F. a determining portion which determines whether or not a display position of the second comment when displayed on the video overlaps a display position of the first comment; and

1G. a display-position control portion for adjustment such that the first comment and the second comment are displayed at positions not overlapping each other, when they are determined to overlap, wherein

1H. by means of transmission of the video and the comment information by the server to the terminal device, the display device of the terminal device displays:

the video; and

at the video play time corresponding to the comment given time, the first comment and the second comment at least partially overlapping the video and moving in the horizontal direction in a manner that the first comment and the second comment do not overlap each other.

7) IP High Court, supra note 6, at 134-35 (the pages are those of the public version of the decision available at <https://www.courts.go.jp/app/files/hanrei_jp/418/091418_hanrei.pdf>).

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While Invention 1 above assumes that the server transmits video and user's comments, Invention 2 relates to a system in which the video delivery server and the comment delivery server exist separately.

The Plaintiff claimed that each system pertaining to Defendant's Services 1 through 3, which related to video delivery services with comments over the Internet operated by Defendant 1, would fall within the technical scope of the patented invention. Furthermore, the delivery by Defendant 1 of its files (i.e., video files and comment files) from its servers in the U.S. to user terminals in Japan would constitute a "production" (Article 2(3)(i) of the Patent Act) of its systems, thus infringing the patent right. In addition, the Plaintiff argued that Defendant 2 was conducting the above acts as a single entity together with Defendant 1. The Plaintiff sought injunctive relief to halt the delivery of the accused files to user terminals in Japan, demanded the deletion of the program from the accused servers, and the removal of said servers, alongside pursuing damages for the joint tortious acts of infringement of the patent rights.⁸

(b) First instance judgment

The Tokyo District Court, in the first instance, dismissed all the claims.⁹ The following is an extract of the part of the judgment against the Plaintiff's claims relating to the production of Defendant's system.

"'Production' as 'working' of a product invention (Article 2(3)(i) of the Patent Act) is understood to mean the act of creating a new 'product' that falls within the technical scope of the invention. In addition, based on the principle of territoriality, which means that the patent

right shall be effective only within the territory of the country concerned [...], it is reasonable to interpret that the "production" is limited to that in Japan. Therefore, it should be understood that, in order to constitute 'production,' it is necessary to newly produce in Japan a product that satisfies all of the constituent features of the patented invention."

"When displaying a video with comments to a user terminal in Japan by Defendant's Service 1, even if a comment delivery system satisfying all the constituent features of Invention 1 is newly created by Defendant's Service 1 functioning according to the procedure described in (1) c. (a) above, it is a creation of a comment delivery system (Defendant's System 1) with the video delivery server and the comment delivery server existing in the U.S. and the user terminal existing in Japan as the constituent elements.

Therefore, since only the user terminal, which is the constituent element in Japan in the completed Defendant's System 1, does not satisfy all the constituent features of Invention 1, it cannot be immediately approved that the 'comment delivery system,' which is the 'product' to be a target of Invention 1, is being 'produced' in Japan."¹⁰

8) In the first trial, the Plaintiff sought payment of 10 million yen in damages under Article 102(3) of the Patent Act. On appeal, however, the Plaintiff amended the complaint to claim 1 billion yen, which is part of the amount of damages under Article 102(2) of the Patent Act, thereby extending the claim.

9) Tokyo District Court, March 24, 2022, Reiwa 1 (wa) 25152.

10) Tokyo District Court, *supra* note 9, at 105-07 (the pages are those of the public version of the decision available at <https://www.courts.go.jp/app/files/hanrei_jp/124/091124_hanrei.pdf>).

(c) the Appellate court's decision

The IP High Court, through a Grand Panel decision, found that the actions of Defendant 1 (Appellee FC2) in each of the accused services constituted a “production” of the accused systems and infringed the patent rights in question.¹¹ The following are excerpts from the decision, maintaining its subheadings.

“(2) Whether or not Appellee FC2 ‘produced’ each of Defendant’s systems

(A) Whether the actions of Appellee FC2 in the FLASH version of Defendant’s Service 1 constitute ‘Production’ (Article 2(3)(i) of the Patent Act) as the working of Invention 1

(a) Introduction

Invention 1 is an invention of a comment delivery system equipped with a server and a plurality of terminal devices connected via a network, and the type of invention is an invention of a product, and ‘production’ (Article 2(3)(i) of the Patent Act) of a product as an act of working thereof is understood to mean the act of newly creating a product that falls within the technical scope of the invention.

As in Invention 1, the ‘Production’ in the invention of the system in which the server and the terminal are connected via a network such as the Internet and perform an integrated function as a whole (hereinafter referred to as a ‘network-type system’) is understood to mean the act of newly creating the system in which multiple

elements, each of which alone does not satisfy all the constituents features of the invention, have an organic relationship with each other by being connected via a network so that the system as a whole has a function that satisfies all the constituent features of the invention.

(b) The act of newly creating Defendant’s System 1 in the FLASH version of Defendant’s Service 1

a. In the FLASH version of Defendant’s Service 1 [...], when a user specifies the webpage of Defendant’s Service 1 to display the desired video in the browser of the user terminal in Japan ([ii]), the web server of Appellee FC2 transmits the HTML file and the SWF file of the aforementioned webpage to the user terminal ([iii]), these files received are stored in the browser’s cache, and FLASH of the user terminal loads the SWF file in the browser’s cache ([iv]); subsequently, when the user presses the play button of the video in the webpage displayed on the browser in the user terminal ([v]), in accordance with the order stored in the aforementioned SWF file, FLASH on the user terminal instructs the browser to retrieve the video file and comment file, and the browser then makes a request for the video file to the video delivery server of Appellee FC2 and a request for the comment file to the comment delivery server of Appellee FC2 in accordance with the instructions ([vi]), and in response to the above request, Appellee FC2’s video delivery server sends the video file, and Appellee FC2’s comment delivery server sends the comment file to the user terminal, respectively ([vii]), and the

11) IP High Court, May 26, 2023, Reiwai 4 (ne) 10046. English translations of the decisions of the Tokyo District Court and the IP High Court in this case are available on the website of the IP High Court at <https://www.ip.courts.go.jp/app/files/hanrei_en/346/003346.pdf> and <<https://www.ip.courts.go.jp/eng/vc-files/eng/2023/r4ne10046-f.pdf>> respectively. However, the English translations in this paper are by the author and do not necessarily follow the ones provided by the IP High

Court. As for Defendant’s Services 2 and 3, injunction was denied with respect to the production of systems for those services, since the business pertaining to those services was transferred to a non-petitioner company. As for Defendant 2 (Appellee HPS), the appeal was dismissed on the grounds that the defendant was not found to have been engaged in business activities related to each of Defendant’s Services after the time of registration of the patent rights in question.

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user terminal receives the above video file and comment file ([viii]). As a result, the user terminal can enable comments to be overlay-displayed on the video in the browser based on the received video file and comment file. Thus, at the time the user terminal receives the above video file and comment file ([viii]), Appellee FC2's video delivery server and comment delivery server are connected to the user terminal via a network using the Internet, and the user terminal's browser can overlay comments on the video. Therefore, it can be said that Defendant's System 1 equipped with functions satisfying all the constituent features of Invention 1 is newly created when the user terminal receives each of the above files (hereinafter, the above act of newly creating Defendant's System 1 is referred to as 'Production 1-1').

(c) Whether or not Production 1-1 falls under the 'Production' under Article 2(3)(i) of the Patent Act

a. The principle of territoriality with respect to patent rights means that the establishment, transfer, validity, etc. of patent rights in each country are determined by the laws of that country and that the effects of patent rights are recognized only within the territory of that country (see Supreme Court Decision 1995 (O) No. 1988, rendered by Third Petty Bench on July 1, 1997, *Minshu* Vol. 51, No. 6, 2299, and Supreme Court Decision 2000 (Ju) No. 580 rendered by First Petty Bench on September 26, 2002, *Minshu* Vol. 56, No. 7, 1551), and it is understood that the principle is also applicable in the Patent Act of Japan.

As described in (b)a above, in Production 1-1, the web server of Appellee FC2 sends HTML files and SWF files of the web page of Defendant's Service 1 for displaying the desired video to the user terminal in Japan, the user terminal receives them, and the video delivery server of Appellee FC2 sends video files and the comment delivery server of Appellee FC2 sends comment files to the user terminal, which receives them. The web server, the video delivery server, and the comment delivery server are all

located in the U.S., while the user terminal is located in Japan. In other words, in Production 1-1, each of the above files is sent from the server in the U.S. to the user terminal in Japan, and the user terminal receives these files across the U.S. and Japan. The newly created Defendant's System 1 exists across the U.S. and Japan. Therefore, from the principle of territoriality, the question arises whether or not Production 1-1 falls under the 'production' in Article 2(3)(i) of the Patent Act of Japan.

b. In a network-type system, it is currently common for servers to be located outside Japan [..]. In addition, the country in which the server is located does not constitute an obstacle to the use of the networked system, and therefore, even if the server constituting the allegedly infringing network-type system is located outside Japan, when the terminals constituting said system are located in Japan [..], the system can be used in Japan by the use of the terminals, and such use may affect the economic profit that the patentee can obtain by working the invention in Japan.

In this way, it is not reasonable to interpret the principle of territoriality strictly with respect to the invention of a network-type system and to interpret the fact that the server, which is part of the components constituting the system, is located outside Japan as a reason why the alleged act does not constitute 'working' under Article 2(3) of the Patent Act of Japan, because it would be easy to avoid a patent as long as the server is located outside Japan, and the patent right for the invention of the system would not be adequately protected.

On the other hand, it is not reasonable to conclude that the existence of the terminal, which is a part of the elements constituting the system, in Japan constitutes 'working' under Article 2(3) of the Patent Act without any exception, since this would be excessive protection of the patent right and would cause hindrance to economic activities.

In light of the above, from the viewpoint of proper protection of patent rights for network-

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type system inventions, it is necessary to consider whether the act of creating a new network-type system constitutes 'production' under Article 2(3)(i) of the Patent Act, even if the server that is part of the elements constituting said system is located outside Japan, by comprehensively taking into account various factors including the specific mode of the act, the functions and roles performed in the invention by the domestic components among the components constituting the system, the place where the effect of the invention can be obtained by using the system, the impact of the use on the economic interests of the patentee of the invention, and others; and if the act can be considered to have been performed in the territory of Japan, then it is reasonable to conclude that the act constitutes 'production' under Article 2(3)(i) of the Patent Act.

Looking at Production 1-1, its specific mode is that each file is sent from a server in the U.S. to a user terminal in Japan, and the user terminal in Japan receives the files. The transmission and reception are performed as a unit, and Defendant's System 1 is completed when each file is received by a user terminal in Japan. Thus, it can be conceived that the transmission/reception is performed in Japan.

Next, Defendant's System 1 consists of Appellee FC2's server located in the U.S. and the user terminal located in Japan, and the above-mentioned user terminal located in Japan fulfills the functions of the determining part of constituent feature 1F and the function of the display-position control part of constituent feature 1G, which are necessary for the main function of Invention 1, namely, to display the comments displayed on the video in a position where they do not overlap with each other.

Furthermore, Defendant's System 1 can be used from within Japan via the above-mentioned user terminal, and the effect of Invention 1 of improving entertainment in communication using comments is manifested within Japan, and its use within Japan can affect the economic benefits that the Appellant (Plaintiff) can obtain

by using the system pertaining to Invention 1 within Japan.

Considering all of the above circumstances comprehensively, it can be said that Production 1-1 was conducted in the territory of Japan, and therefore, in relation to Invention 1, it is considered to fall under 'production' in Article 2(3)(i) of the Patent Act.

(d) The entity that 'produced' Defendant's System 1 (pertaining to the FLASH version of Defendant's Service 1)

a. Defendant's System 1 (pertaining to the FLASH version of Defendant's Service 1) is newly created as the result of, as described in (b)a above, the web server of Appellee FC2 sending the HTML file and SWF file of the web page of Defendant's Service 1 for displaying the desired video to the user terminal; the user terminal receiving them; in response to the request from the browser in accordance with the order by the SWF file stored in the cache of the browser of the user terminal, the video delivery server of Appellee FC2 transmitting the video file, and the comment delivery server of Appellee FC2 transmitting the comment file to the user terminal, respectively; and the user terminal receiving them. It is Appellee FC2 who installs and manages the above web server, video delivery server, and comment delivery server; and these servers send HTML files, SWF files, video files, and comment files to user terminals. Receipt of each file by the user terminal is automatically performed according to the description of the program uploaded to the server by Appellee FC2, without any separate operation by the user. In light of the above circumstances, the entity that 'produced' Defendant's System 1 should be considered to be Appellee FC2."¹²

12) IP High Court, *supra* note 11, at 71-74 (the pages are those of the public version of the decision available at <https://www.courts.go.jp/app/files/hanrei_jp/146/092146_hanrei.pdf>).

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The IP High Court subsequently held that Defendant 1's (Appellee FC2's) conduct in the HTML5 version of Defendant's Service 1, as well as in Defendant's Services 2 and 3, also constituted a "production" as an act of working of Invention 1. It also found that the acts of Defendant 1 in Defendant's Services 1, 2, and 3 constituted such "production" as an act of working of Invention 2.

3. Analysis

(1) International jurisdiction, choice of law, and application of the principle of territoriality

In cases where Japanese courts deliberate on potential patent infringement stemming from cross-border activities, the issue of international jurisdiction and choice of law becomes pivotal since events occurring abroad are concerned. However, the parties did not dispute the international jurisdiction of Japanese courts in the two cases discussed here. As to the choice of law, the applicable framework in patent infringement cases has been established in practice through a set of court precedents, including Supreme Court decisions.¹³ Thus, Japanese law was applied accordingly in the decisions in the two cases.

In addition, the conclusion may vary greatly depending on how the principle of territoriality regarding patent rights is understood when examining whether or not patent rights are infringed by a cross-border act. There has long been academic debate over the principle of territoriality, with some arguing that the principle does not exist as a legal norm in the first place or that it should be abandoned.¹⁴ In practice, however, several Supreme Court decisions have affirmed the existence of the principle of territoriality.¹⁵ The question is then how strictly the principle should be interpreted in actual cases.

While a detailed discussion of the principle of territoriality is outside of the scope of this paper, the following points merit clarification.¹⁶

First, the principle of territoriality with respect to patent rights consists of two key aspects: One relates to substantive law, while the other relates to the conflict of laws. With regards to the former, the principle of territoriality means that the patent right is valid only within the territory of the country (or territory extending over several countries) that granted the patent right. In relation to the latter, i.e., the conflict of laws, the law applicable to patent infringement should be the law of the State for which protection is sought, and the law applicable to the issues of acquisition and validity should be the law of the State where the patent has been registered. The

13) See Supreme Court, September 26, 2002, Minshu Vol. 56, No. 7, 1551 (*card reader*). According to this Supreme Court decision, with regard to requests for injunctive relief and claims for destruction based on a patent right, the legal nature of the claim is the effect of the patent right, and the law of the country in which the patent right is registered should be applied based on the principle of law. With regard to a claim for damages, the legal nature of the claim is that of a tort, and the governing law selected based on Article 11(1) of the (former) Act on General Rules for Application of Laws Law (Act No. 10 of 1898) (in the current law, Article 17 of Act No. 78 of June 21, 2006) should be applied.

14) For example, Koji Deguchi, "Competition Law and Intellectual Property Law," in *International Transaction* (the Japanese Society of International Law ed. 2001) 118; Yasuto Komada, "Reconsidering the 'Principle of

Territoriality' – Seeking the Clear Conflict of Laws System for Intellectual Property Rights," *Annual of Industrial Property Law* Vol. 27, 1 (2004).

15) For example, Supreme Court, July 1, 1997, Minshu Vol. 51, No. 6, 2299 (*BBS*), and Supreme Court, September 26, 2002 (*card reader*), *supra* note 13.

16) The author has discussed the principle of territoriality in detail in the following article. Masabumi Suzuki, "the Principle of the Territoriality in Relation to Patent Rights," *Patent* Vol. 76, No. 14, 6 (2023) (in Japanese) (<<https://jpaa-patent.info/patent/viewPdf/4337>>).

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substantive law principle of territoriality is required under international law, while the conflict of laws principle of territoriality is necessarily required as a rule under the conflict of laws in order to be consistent with the substantive law principle.

Secondly, the principle of territoriality is required under international law because the patent system, as a policy system established by a sovereign state, should be applied within its own territory while respecting the system of other countries within their territories (the principle of patent independence and the compulsory license system are examples of this concept). At the same time, the principle of territoriality has the practical advantage of providing foreseeability and legal stability to business operators.

Thirdly, there is no specific norm under international law as to how strictly the principle of territoriality should be observed. In light of the fact that judicial precedents in major countries have relaxed the principle of territoriality to some extent with regard to the treatment of patent infringement caused by cross-border acts,¹⁷ it should be acceptable for Japan to apply the principle of territoriality loosely as long as it does not undermine the underlying purpose of the principle.

Fourthly, the IP High Court decisions in the two cases both applied the Patent Act in the direction of relaxing the principle of territoriality. The basic stance of the IP High Court should be supported.

(2) Evaluation of the decisions

(a) IP High Court Decision in Case No. 1

In the first case, the IP High Court affirmed

that the program sent from the server in the U.S. constitutes a “provision” pursuant to Article 2(3)(i) of the Patent Act as an act of working the patented invention. This conclusion is appropriate.

However, the question remains whether it was really necessary to consider the cross-border nature of the defendant’s act in the first place. In other words, given that the accused programs were automatically transmitted to users in Japan upon their requests, the physical location of the delivery server, even if situated in the U.S., renders the commencement of transmission’s location practically irrelevant. Considering that the Defendants were consciously providing the Defendant’s services to the Japanese market, the provision of the program in Japan could be readily approved, given that the Japanese users were given the opportunity to use the program.

In addition, if we assume that the above-mentioned act of provision was transborder, the judgment by the IP High Court to take a loose view of the principle of territoriality and regard the act as being domestic in effect should itself be supported. However, the way the IP High Court reached this conclusion is questionable. Specifically, the IP High Court took into consideration multiple factors such as (1) the feasibility of distinguishing between parts of the act of provision made within and outside Japan, (2) whether control of the provision was performed inside of Japan, (3) whether the provision was directed to customers in Japan, (4) whether the effects of the patented invention obtained through the provision were realized inside of Japan, and (5) other circumstances comprehensively. First, the criteria merely present a juxtaposition of diverse factors,

17) For example, *Decca Ltd. v. United States*, 544 F.2d 1070 (1976); *NTP, Inc. v. Research In Motion, Ltd.*, 418 F.3d 1282 (Fed. Cir. 2005); *Menashe Business Mercantile Ltd. & Anor v. William Hill Organization Ltd.*, [2002] EWCA Civ 1702; *Illumina, Inc v. Premaitha Health Plc*, [2017] EWHC 2930 (Pat); OLG Düsseldorf, Urteil vom 10. 12. 2009 – I-2 U 51/08, BeckRS 2010, 12415 – *Prepaid-Telefonkarte*; LG

München I, Endurteil vom 21.04.2016 - 7 O 5930/15, GRUR-RS 2016, 07658 – *Kommunikationssystem*; OLG Düsseldorf (2. Zivilsenat), Urteil vom 23.03.2017 – I-2 U 5/17, BeckRS 2017, 109826 – *Pränatale Diagnostik*; LG Düsseldorf, Urteil vom 28.7.2020 – 4 a O 53/19, GRUR 2020, 1078 – *Online-Sehtest*. For a discussion about these decisions, see Suzuki, *supra* note 6, at 12-18.

leading to limited predictability about the conclusion of judgments. Second, among the various circumstances listed, the purpose of (1), i.e., the feasibility of distinguishing between parts of the act of provision made within and outside Japan, appears questionable in particular.¹⁸ An alternative way of examining patent infringement by cross-border acts will be discussed in (3) below to address these issues.

(b) First instance judgment and the IP High Court's Grand Panel decision in Case No. 2

It must be said that the first instance decision in the second case lacks persuasiveness in its rejection of the applicability of a "production" (Article 2(3)(i) of the Patent Act) simply because the server was located outside of Japan. As will be elaborated later, "production" should be interpreted in the context of the definition of the non-physical and normative concept of "working" an invention, and be regarded as a normative concept in its own right. Moreover, it should be interpreted while considering the characteristics of the network-type system at issue in the case and the role played by the server therein.

On the other hand, the IP High Court's decision is commendable in that it discusses the applicability of "production" for the network-type system on the premise that it is a normative concept.

However, akin to the IP High Court in the first case, the court adopted an approach examining various factors comprehensively without clearly indicating the foundational rationale underlying its judgment. Specifically, the IP High Court in the second case considered

(1) the specific mode of the act of creating a new system, (2) the functions and roles of the components within Japan in relation to the invention, (3) the place where the effect of the invention can be obtained by using the system, (4) the impact of the use of the system on the patentee's economic interests, and (5) other factors. Yet, these factors are only presented in parallel without any indication of how they relate to each other or which of them should have more weight. As such, the criteria lack predictability. Moreover, in applying these judgment criteria, the court only provided explanations in the direction that the act could be deemed to have taken place in Japan, but did not sufficiently explain why the production of the system could be constructed as having occurred in Japan despite the presence of the server in the U.S. and the transmission of each file from there. Ultimately, the IP High Court's decision may lack persuasiveness due to its failure to sufficiently clarify the basic rationale and reasoning in reaching its conclusion.

(3) Discussion

An act of patent infringement, first and foremost, relates to the working of the patented invention. Hence, the main issue in relation to the territoriality of patent rights revolves around whether the "working of the invention" took place in Japan. The ultimate proposition of establishing proof lies in determining the location of the act, which is determined by the normative concept of "working of the invention." Thus, in deciding this location, it is imperative not only to consider natural observations based on the place where the concrete and physical acts constituting the "working of the invention" (the acts enumerated in each item of Article 2(3) of the Patent Act) were performed, but also to evaluate

18) The IP High Court decision in Case No. 1 raises the issue of the transborder nature of the communication route in determining whether the provision of the program is a domestic act. However, with respect to acts using the Internet, which is inherently characterized by

transborder nature, it is meaningless to question the transborder nature of the communication route, because even if the transmission and reception take place in Japan, the communication route may go through a foreign country.

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where the working of the invention can be recognized from the legal perspective.

In evaluating the place of “working of the invention” from the legal perspective, the most important question to be considered is where the technical effect of the invention is realized. Therefore, even if a part of the working act is physically performed in a foreign country, if the effect of the patented invention is found to be realized in Japan from a substantive viewpoint, the court could consider that there is an act of working in Japan as a whole.

At the same time, with regard to the scope of the patent right's effects, it is also crucial to ensure that business operators are not held liable for unforeseeable infringement, thus safeguarding freedom of operation. From this perspective and considering the principle of territoriality, it should be required that the alleged infringer has consciously committed some act in Japan directly related to the occurrence of the effect of the invention. The above approach must conclude by further considering the circumstances unique to each individual case.

When assessing the effect of a patented invention, it is possible to examine it from either a technical or an economic perspective. However, since the question here is about the effect of the invention in order to address the place where the invention is implemented, the focus should be on its technical effect. In addition, a focus on the economic effect would lead to issues as it may include secondary effects that are difficult to demarcate.

There is no need for the act physically performed in Japan to involve the so-called essential part of the patented invention (or, conversely, for the act performed in a foreign country not to involve the essential part of the patented invention). Establishing such a requirement, in relation to a patent for a system invention, for example, could lead to situations where infringement might not be charged if acts relating to the essential part of the invention are performed by a foreign server (directed towards Japan). However, given that the location of the server is often meaningless in relation to the effect of the invention, such an outcome would be unreasonable.

In summary, when determining whether a patent right is infringed by a cross-border act, primary emphasis should be placed on the fact that the effect of the patented invention is manifested in Japan. Secondly, the circumstances under which the actor should be held liable for the act of infringement in Japan (as mentioned above, the actor's awareness of committing the act in Japan and the direct relationship between the act and the effect of the invention) are recognized. Then, patent infringement may, in principle, be affirmed as a domestic act.

Specifically concerning the acts of constructing (producing) a system using a network or providing a program, as evidenced in the two cases under discussion, even if there is a possibility of evaluating that a portion of the relevant act occurs outside Japan due to the server's location in a foreign country, infringement may still be established as a working act performed in Japan if the action is linked to a service directed towards Japan, and the other portion of the working act takes place within Japan and results in the realization of the patented invention's effects in the country.

As previously mentioned, the judgment criteria set forth by the IP High Court in the two cases merely list various circumstances without sufficiently presenting a coherent viewpoint for consideration, thereby lacking persuasiveness and validity as a code of conduct. With regard to the criteria presented by the IP High Court decision in the second case, the primary emphasis should be placed on the place where the effect of the invention in question can be obtained in criterion (3). Furthermore, criterion (2) which relates to the functions and roles performed by the components existing in Japan is intricately linked to the place where the effect of the invention is realized and is connected to the actor's awareness of the use of the invention in Japan, thus also constituting an important factor. However, criterion (1) lacks clear guidance regarding the perspective from which this should be evaluated, rendering it less meaningful. As to criterion (4) concerning the impact on the economic interests of the patentee, while it holds significance in cases with substantial adverse effects, it should not be considered decisive. Even where the impact on the economic interests is small, but where the technical effect of the act is clearly manifested in Japan, the act should be

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recognized as a domestic act. Therefore, (4) should not be deemed a decisive factor. Japan, the act should be recognized as a domestic act. Therefore, (4) should not be deemed a decisive factor.

Furthermore, there exists some room for flexibility in the interpretation of the concept of specific acts constituting the “working of the invention.” For example, “production” is construed as an act of working because the resultant “product” could potentially cause actual damage to the patentee when it is exploited (used, transferred, etc.). Therefore, the location of “production” may be acknowledged by considering where the produced “product” can effectively be exploited.

In addition, in the case of a network-type system, it might be easier to consider the location of “use” rather than “production” without placing all too much emphasis on the physical location of the servers. In other words, when examining the location of “use” of a system, it is natural to focus on where the system is actually used, rather than solely on the physical location of the servers that make up the system. Conversely, if the place of “use” is identified as domestic, then the “product” (system) employed for the “use” may be recognized in Japan. Consequently, if the system is newly created for this purpose, it could be plausible to consider that “production” also occurs in Japan.

As for “provision,” there is generally leeway to interpret “provision” as either the action of the provider, the recipient receiving the provision, or both, when it takes place between parties at a distance.¹⁹ In the scenario of a cross-border “provision,” this entails that a single act contains both domestic and foreign aspects. In this sense, in the first case, it would have been feasible to simply regard the act of “provision” as not being transborder in the first place but rather a domestic act, as discussed above. At the very least, it seems that the threshold for the court to

recognize the act as an act in Japan was lower in the first case, where “provision” was under consideration, compared to the second case, where a part of the act corresponding to some constituent features of the patented invention took place in a foreign country and the applicability of “production” was at stake.

4. Conclusion

The IP High Court decisions in the two cases are to be commended for their flexible interpretation of the principle of territoriality to effectively protect patent rights. However, the judgment criteria they set forth are hardly sufficient. It appears that appeals and petitions for acceptance of appeals to the Supreme Court have been filed in both cases, and we hope that the Supreme Court will furnish more foreseeable standards.

Nonetheless, there are limitations in interpreting and drafting claims to adequately protect patent rights concerning cross-border acts. Therefore, it may be necessary to contemplate new legislation regarding the concept of the working of the invention. At the same time, it is undeniable that the principle of territoriality under international law also constrains domestic legislation. Hence, in the long run, efforts should be made to establish regional patent systems.

19) The “provision through electronic communication lines” of a program as working of a patented invention is defined to be included in the concept of “transferring or

leasing” of a product (Article 2(3)(i) of the Patent Act), and it may be understood to include the act of giving an opportunity to enjoy the functions of a program.