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Round Table 10
Latest Case Decisions Affecting Patent License in U.S., Europe and Japan

# Recent cases relating to cross-border infringement in Japan (Dwango v. FC2 cases)

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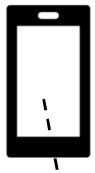
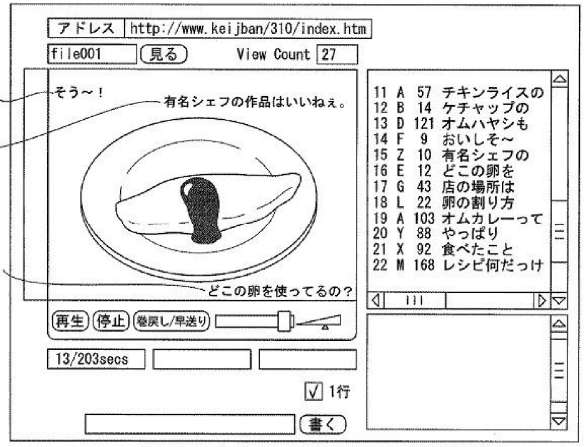
# Background Fact

User terminal



Program
(HTML file)

FC2's server




Web browser

Patent Infringement Action (based on JP patents)

- Combination of server and terminal (Dwango I)
- Program claim (Dwango II)

Dwango
(Patentee)

# Precedents relating to cross-border infringement

Osaka District Court, Nov. 24, 2000 [“Bread machine” case]

- ✓ “Implementation” under JP patent law shall be an act in Japan only.
- ✓ Exporting a component of patented apparatus does not constitute “implementation” under JP patent law because it may cause implementation in a foreign country

Tokyo District Court, Sep. 20, 2001 [“Electrodeposited image formation method” case]

- ✓ The whole steps shall be carried out in Japan under the territorial principle
- ✓ If the final step of the image formation method is carried out in a foreign country, the remaining steps (in Japan) does not constitute infringement under JP patent law

# Dwango I (Tokyo District Court, March 24, 2022) – system claim

- ✓ The court denied infringement because the “system” is not produced in Japan
- ✓ In order to qualify as "production“ of the system, it is necessary to create a new product in Japan that satisfies all the constituent requirements of a patented invention.
- ✓ In this case, the server is located in the United States, so it cannot be recognized that the "comment distribution system“ of the patented invention is not produced in Japan.
- ✓ It is not found that Defendant intentionally provided the server outside of Japan to avoid infringement.
- ✓ This case is pending in the IP High Court (grand panel), and the judgment will be held on May 29, 2023.

# Dwango II (IP High Court, July 20, 2022) – program claim

- ✓ The court found infringement and ordered injunction of providing the program
- ✓ It is considered as "providing (through telecommunication line)" under JP law if the activities can be evaluated as having been made within the territory of Japan substantially and as a whole.
- ✓ The following factors can be considered in evaluation:
  - ➢ whether the activity of providing is clearly and easily distinguishable between the part outside Japan and the part within the territory of Japan;
  - ➢ whether the activity is controlled within the territory of Japan;
  - ➢ whether the activity is directed to customers located within the territory of Japan; and
  - ➢ whether the effect of the patented invention obtained by the activity is expressed within the territory of Japan

# Comments

- ✓ These two cases suggest cross-border infringement would be possible, but both cases are not conclusive.
- ✓ IP High Court decision of Dwango II (scheduled on May 29) may provide some standard to grant cross-border infringement.
- ✓ It is not easy to avoid infringement by simply putting the server outside Japan, so it may be necessary to consider licensing of network related patents.

# Appendix – Exhaustion

Supreme Court, 1997.7.1 [BBS case]

- ✓ If the patent holder or the licensee assigned the patented products in Japan, the patent right on the products has achieved its goal and has been exhausted.
- ✓ Internal exhaustion does not apply because the patent in Japan and the patent in the country of the place of assignment are separate rights.
- ✓ Taking into consideration of ensuring of international circulation of goods, if a patent holder in Japan or an equivalent person assigns a patented product outside Japan, the patent holder may not seek patent enforcement in Japan against the person who acquired the patented product from the assignee, unless there is an agreement with the assignee excluding Japan from the areas of sale or use of the said product and such agreement is explicitly indicated on the product.

# Appendix – Exhaustion

Exhaustion - ”Covenant not to sue”

- ✓ There is no precedent whether or not “covenant not to sue” agreement constitutes patent exhaustion.
- ✓ Japanese patent law provides “non-exclusive license”, which would be distinguished with “covenant not to sue”, but it is arguable.