

JAPAN

Overseas knockdown production and patent infringement

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Summary of the case

Murata Manufacturing is the owner of the patent entitled “Furnace heater and heat treatment furnace with a furnace heater” (JP3196261, the patent right). Murata sought damages against OPPC Co., Ltd. arguing that OPPC’s sale of their products infringed the patent right, and demanded payment of 238,368,900 yen (approximately \$2.85 million in 2012).

Judgment of March 22 2012, Osaka District Court

The Osaka District Court (Presiding Judge Morisaki) affirmed that OPPC’s products fell within the technical scope of the patented invention, and with regard to OPPC’s products sold overseas, the Court ruled that OPPC’s series of acts concerning the sale of their products in Japan fell under “transfer” (Article 2(3)(i) of the Patent Act) although their products sold overseas were exported in parts. The court partially upheld Murata’s claims for damages to the extent of payment of 128,115,144 yen. The holding with regard to the products sold overseas is as follows.

The following facts are found with regard to the products, particularly with regard to transactions with overseas customers (Samsung Electronics in Korea and Darfon Electronics in Taiwan).

a) OPPC prepared a sales brochure, indicating OPPC as a manufacturer, outlining the specifications and performance of an elevating batch-type atmosphere firing furnace similar to their products. OPPC included this batch-type

atmosphere firing furnace for ceramic capacitors in its product line-up on its website, outlining the specifications and performance. Furthermore, in November 2004, OPPC indicated that it had sold elevating batch-type atmosphere firing furnaces for multi-layered ceramic capacitors.

b) OPPC concluded sales contracts for their products with each of its customers. At the time of conclusion of each sales contract, the products subject to the sales contract did not exist as products ready for operation and were subsequently scheduled to be manufactured based on the design drawings assumed in the sales contracts (therefore, they can be regarded as so-called build-to-order products).

c) After concluding the sales contracts with its customers, OPPC had Nakamura Seisakusyo (Nakamura) manufacture furnace bodies, lifters, and so on at Nakamura’s plant based on the above design drawings. OPPC purchased heaters from Tokai Konetsu Kogyo and control panels from Koyo Electric and had them delivered to the plant. Thereafter, OPPC had Nakamura temporarily assemble and temporarily wire the products and conduct the checking of operations. Sometimes OPPC had Nakamura calcinate the furnace body, the process of which is to remove the heat-insulating material binder while injecting air at around 700 . This process is necessary to ensure stable operation before the furnace is actually put into operation. Sometimes the calcination of the furnace body was carried out at the delivery site. The personnel of OPPC were present during the temporary assembly to check no parts were missing.

d) The products which had been temporarily assembled at Nakamura’s plant were thereafter disassembled, returned to a state of parts, temporarily packaged, and shipped overseas from the plant

under OPPC’s instructions. The products were then reassembled, adjusted, and put into operation at overseas locations. Newly procured parts were sometimes added during the overseas assembly, but these parts were not related to the patent.

Based on the above fact, presumably OPPC was “offering to transfer” (Article 2(3)(i) of the Patent Act) the products (elevating batch-type atmosphere firing furnaces) in Japan, as it was engaged in sales activities related to the sale of these products in its sales brochure and website.

With regard to the products for overseas customers, OPPC also manufactured or procured the necessary parts at Nakamura’s plant in Japan, completed them to a state of temporary assembly, and conducted checking of their operation, and even performed calcination of the furnace body for some of them. The products were then to be exported after being returned to a state of parts. Although some parts were added at the time of overseas assembly, given that such parts were not related to the patented invention, the products are found to have been completed to the extent that they satisfied all elements of the patent despite their state of work in progress. In this regard, OPPC is recognised to have conducted “producing” (Article 2(3)(i) of the Patent Act) in Japan which is a working of the patented invention.

According to OPPC, the products are temporarily assembled, operations checked, and the products then returned to a state of parts, packaged, and exported. However, given that the above temporary assembly does not seem too large to be transported in that state, returning to a state of parts is conducted only for the convenience of transport.

Therefore, OPPC’s series of acts concerning the sale of the products in Japan are found to fall under “transfer” (Article 2(3)(i) of the Patent Act) which is a working of

the patented invention, despite the fact that the products were in a state of parts before exportation.

Practical tips

Knockdown production refers to a production method used to export domestically manufactured or procured parts and assemble them in the destination country to complete production. Knockdown production is conducted for several reasons, such as to reduce transportation costs, to avoid the risk of damages to finished products, and for customs reasons.

Judgments had dismissed indirect infringement with regard to the manufacture and export of parts that are used in knockdown production overseas, considering the principle of territoriality and so on. There had been some views to affirm indirect infringement, stating that the above consequence would be unfair if any patent acts of any countries are not be able to prohibit the patent infringer from earning profit.

However, many believed it would be difficult to interpret the existing law to affirm indirect infringement, given the legislative history where “export” was added to Article 2(3) of the Patent Act, but not to the indirect infringement in Article 101, when it was revised in 2006. It was widely believed that taking legislative measures would be required. Furthermore, others had previously pointed out that not indirect infringement but direct infringement should be discussed with regard to the manufacture and export of parts used in knockdown production.

Meanwhile, this judgment is epoch-making from the viewpoint that it affirmed direct infringement by finding that OPPC’s series of acts qualified as “transfer.” (“Export” was added to Article 2(3)(i) of the Patent Act at the revision of the Patent Act in 2006. However, since the conduct of OPPC was prior to the enforcement of the revision in 2006, whether OPPC’s series of acts counted as “transfer” was disputed.)

The judgment pointed out the reasons why it affirmed direct infringement as follows:

- 1) OPPC was engaged in sales activities, i.e., “offering to transfer” (Article 2(3)(i) of the Patent Act) of the products;
- 2) OPPC conducted checking of operations after completing them to a state of temporary assembly; and
- 3) Returning to a state of parts is conducted only for the convenience of transport.

This judgment is case-specific and it did not establish general rules. There are disputes among academics as to whether direct infringement can be affirmed in cases where “domestic temporary assembly” is not conducted, which the judgment seemed to have emphasised. Further judgments are expected.

Besides, in a judgment of February 27 2007, the Tokyo District Court (Presiding Judge Shitara) dismissed direct infringement in the case where the products were exported in a state of ‘work in progress’ that did not satisfy parts of elements of a patent, and the parts were provided to customers who purchased the unfinished products at the destination country. The fact in this case was different from the fact in the judgment of the Osaka District Court.