Managing IP

Japan ruling on patent territoriality could open new doors: counsel

Sukanya Sarkar June 06, 2023

Sources say a decision by the IP High Court will make it easier for rights owners to fight infringement

Practitioners in Japan have welcomed a landmark ruling that will allow a patent owner to sue for infringement in the country even if the computer server used to facilitate the alleged violation was located elsewhere.

The case, *Dwango v FC2*, concerned whether the defendant's comment display system, which distributed files to users in Japan via a server located outside the country, infringed the plaintiff's patent claim.

A grand panel of the Intellectual Property High Court of Japan ruled on May 26 that the defendant's activity constituted "working" of the invention under Article 2(3)(i) of Japan's Patent Act and amounted to infringement of the patented technology in Japan.

In doing so, the court reversed an earlier decision by the Tokyo District Court and, for the first time, recognised the extraterritorial application of a system patent claim.

System claims cover the relationship between the different elements of an invention.

Akiko Araki, managing partner at Araki International IP & Law, says she agrees with the ruling, adding: "If the territoriality principle is strictly applied, people who place their server outside Japan can very easily avoid patent infringement claims.

"That's not practical because infringement is becoming a borderless issue with technological developments, and I'm glad that the court addressed that issue."

Takanori Abe, founder of Abe & Partners in Osaka, says the judgment opens the door to overlook the principle of territoriality.

"It not only affects the IT sector but also other industries such as biotech," he adds.

More weight

Sources say the decision follows the slowly emerging trend that courts can allow the extraterritorial application of local patents in certain circumstances.

Japanese courts have been conservative about the territoriality issue in the past.

However, last year, in another dispute between the same parties, the IP High Court acknowledged the extraterritorial reach of a patent claim involving a computer program for the first time.

According to sources, the latest decision is more significant.

The 2022 decision was delivered by a single panel comprising three judges, but the latest judgment was issued by a grand panel. Grand panels consist of five judges, including four chief judges.

"The grand panel judgment will have a stronger influence than the one-panel judgment," Abe notes.

The ruling also marks the first time in Japan that third parties have filed amicus briefs in patent infringement litigation.

Japan amended its law in April 2022 to allow amicus briefs in patent cases.

The Japan Patent Attorneys Association and AIPPI, which both filed briefs in this case, supported the patentee.

Broad outreach

What's more, the 2022 decision revolved around a computer program, but the recent case concerned a system claim and will likely have more far-reaching implications, according to counsel.

Hideki Takaishi, partner at Nakamura & Partners in Tokyo, says the decision to allow only program patents to have an extraterritorial reach was considerably narrow in scope.

"The new ruling means patent agents and attorneys will have much more flexibility to describe their clients' inventions now."

Masaki Morishima, partner at Saegusa & Partners in Osaka, says a system claim is generally more enforceable than a claim covering a device or a computer program in Japan.

He explains: "If a court acknowledges that a possibly infringing system falls within your system claim, you can enforce it against the company running such a system."

In contrast, even if a court acknowledged that a patent claim was infringed by a program or device such as a terminal that only private customers used, it would still be difficult to enforce it, Morishima adds.

This stems from the notion that if the specific activity that violates a patent claim does not count as a business, it will not be considered an infringement in Japan, he notes.

Morishima adds that a system claim is also more convenient to enforce in cases where the features that distinguish the invention from prior art relate to a server.

"When drafting patent applications, applicants should leverage this decision by utilising such system claims," he says.

Drafting tips

Prospective patent applicants, therefore, have a thing or two to learn from the decision when drafting their claims.

Tatsuya Sawada, executive director at Sugimura & Partners in Tokyo, urges applicants to consider the four-factor test outlined by the court.

The grand panel said whether an infringing activity counts as working of the patented invention in Japan will depend upon the nature of the act, domestic components' role in the invention, where the invention's effects are realised, and how the system's use impacted the patentee's economic interests.

Sawada notes that foreign server issues are globally regarded as infringements based on the location where "economic benefit" is generated.

Therefore, he says, when a program is distributed to and executed on a server and user terminal, the likelihood of succeeding in an infringement action will be low if the claims only recite a server with limited processing execution entities.

“Claims that include both a server and a user terminal would be preferable from an enforcement point of view.”

Missing clarity

While all practitioners agree on the significance of the ruling and that patent owners may need to tweak their strategies, not everyone is clear about the practical implications of the decision.

Araki at Araki International IP & Law says she is unsure about the scope and impact of the judgment.

One reason is that the court has yet to publish the full written ruling.

She adds: “I’m not sure how to apply the four factors laid down by the court in practice.

“Also, the court delivered the decision for network system patents, so it's unclear what other types of inventions can be covered under the ruling.”

Stakeholders will hope that at least one of those issues will become clearer when the full decision is finally published.

In the meantime, there’s enough to rejoice about with Japan finally adhering to globally well-settled principles on extraterritorial infringement.

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Sukanya covers all IP-related issues in Asia including trademark, copyright, patent and design matters. She has worked as an in-house counsel in the past. She is particularly interested in enforcement strategies adopted by brand owners and overlaps between different IP disciplines.