

**U.S. Patent Infringement – Injunction – Compensatory Damages – Private
International Law – *Horei* – Applicable Law – Effect of Patents – Principle of
Territoriality – Law of the Place of Registration – Tort – Law of the Place of
Wrong**

Supreme Court, Judgment, September 26, 2002*

56 Minshu (7) 1551 [2002], H.J. (1802) 19 [2002], H.T. (1107) 80 [2002].

Fujimoto v. Neuron Corporation

The appellant Fujimoto (plaintiff) applied on June 22, 1983, for a U.S. Patent on the invention by the name of "FM Signal demodulating apparatus," which was received and registered on September 10, 1985, as Patent No. 4540947. (Hereinafter the patent is referred to as 'the relevant U.S. patent' and the invention is called "the relevant invention". The appellant had no patent in Japan for the relevant invention.

The respondent, Neuron Corporation (defendant), produced a card reader (herein referred to as the "respondent's first product") from 1986 to 1991 in Japan and exported it to the United States. A United States corporation Neuron Electronics Incorporated (hereinafter referred to as the "U.S. subsidiary"), fully owned by the respondent, imported the product and sold it in the United States. Further, from 1992, the respondent produced a second card reader (hereinafter referred to as the "respondent's second product" and referred to collectively with the first product as the "respondent's products") and exported it to the United States, and the U.S. subsidiary imported and sold these in the United States.

The respondent's first product belongs to the technical field of the relevant invention. The appellant argued in the present case that the respondent's second product also belonged to the technical field of the relevant invention, and that as the conduct of the U.S. subsidiary infringed the relevant U.S. patent, the conduct of the respondent in exporting etc. the respondent's products to the United States amounted to conduct of actively encouraging the infringement of U.S. patents as provided in Article 271(b) of the United States Patent Act, and claimed the following against the respondent: (1) an injunction against the encouragement of the production in Japan of the respondent's products for the purpose of exporting them to the United States, the export to the United States of the respondent's product produced in Japan, and the sale or offering for sale of the respondent's products in the United States by the respondent's subsidiary and others; (2) the destruction of the respondent's products that the respondent possesses in Japan;

* Translated by Paul Shepherd and edited by Yoshiaki Nomura.

and (3) compensatory damages based on tort law (and the return in advance of the portion extinguished by prescription).

Held: The present appeal to the Supreme Court is dismissed. The appellant must bear the costs of the appeal.'

Upon the grounds stated below:

First and second grounds for appeal

1. 'The first instance judgment as summarized below held that the previously mentioned relevant requests for injunctions and the relevant request for destruction be dismissed.

1) In regard to the patent, the internationally recognized principle of territoriality applies, and even in cases where conduct is viewed as a domestic violation of a foreign patent, so long as there is no provision based on a specific law or treaty, it is right to say that it is not possible to request in a domestic court injunctions or destruction related to foreign patents. In regard to the right to request an injunction or destruction based on foreign patents, there is no possibility for the issue of the determination of the applicable law to arise provided for in the *Horei* (Application of Laws (General) Act (1898 Act No.10)). Further, as there is no law of treaty that enables the exercise in Japan of the right to request an injunction or destruction based on foreign patents, there is no basis for either the relevant injunctions or destruction requests in this case.

2) Supposing that the relevant requests for injunctions or destruction had included international elements, as there is no provision in the *Horei* relating to the applicable law regarding the effect of patents, there is no alternative but to reach a decision based on the principles of justice and convenience in private international law. However, considering the fact that the parties of the instant case are a Japanese national and a Japanese corporation with its address or principal place of business in Japan; that the place of the conduct that is object of the relevant injunction claim and the place of the object of the destruction claim as well as the place of the court are all in Japan; and that the effect of a patent registered in one country is generally not interpreted to naturally extend to the territories of other countries, it is proper to interpret the applicable law as being the Japanese Patent Law or a treaty.

Further, in the Japanese Patent Law there is no provision allowing injunctions and so on against conduct within Japan that is applicable to the conduct of actively encouraging the infringement of foreign patents, and there is also no treaty between Japan and the United States providing for the mutual recognition in each country of the effect of the other country's patents. Accordingly, there is no basis for the claims for the relevant injunctions or the relevant claim for destruction."

2. "We can approve, in terms of its conclusion, the judgment of the court of first instance that there is no basis for either the claims for the relevant injunctions or relevant claim for destruction by the appellant against the respondent. The reasons are as follows.

- 1) While the relevant claims for injunctions and the relevant claim for destruction are claims based on the right to private property, and the parties in this case are a Japanese national and a Japanese corporation having their address or principal place of business in Japan, and the claims relate to conduct within Japan, there is the necessity to determine the applicable law because the claims include international elements in that they are based on rights granted under United States patent law. The principle of territoriality in relation to patents means that each country's patents are provided for by the laws of the relevant country with respect to their formation, transfer, effect etc. and the effect of patents are only recognized within the territory of the relevant country (see Third Petty Bench, Supreme Court, Judgment, July 1, 1997; 51(G) Minshu 2299)⁽¹⁾. That is, each country provides by its own laws the procedures and the type of effect to give to that invention based on its industrial policies. In Japan the effect of Japanese patents are recognized only within Japan. However, that does not mean that it is unnecessary to determine the applicable law provided for by the *Horei* in disputes between private persons related to foreign patents, so the judgment of the court of first instance with respect to this point is not correct.
- 2) Claims for injunctions or destruction based on United States patents are different in both purpose and character from claims based in core that have the purpose of the restoration of past damage to the victim from the perspective of justice and fairness. They are based on the monopolistic and

⁽¹⁾ For the English translation of this Judgment (case concerning parallel import of BBS car wheels), see 41 JAIL. 100 [1998].

exclusive effect of U.S. patents. Accordingly, in relation to injunctions and destruction based on U.S. patents, the substance of the legal relationship is determined by the effect of the patent. In regard to the applicable law regarding the effect of patents, as there is no direct provision in the *Horei* etc., it is proper to determine this based on general principles in accordance with the law of the country in which the relevant patent was registered, which is the country with the closest relationship with the relevant patent. However, (a) patents are recognized as rights after application and registration in each country; (b) many countries adopt the principle of territoriality in regard to patents and accordingly each country's patents are provided for by laws of the relevant country regarding their formation, transfer and effect, and the effect of patents are only recognized within the territory of the relevant country; and (c) insofar as the effect of patents is only recognized within the territory of the relevant country, if one considers the fact that the country where the patent was registered is the country where protection of the patents was claimed, it is proper to view the country where the relevant patent was registered to be the one having the closest relationship with the patent. Accordingly, the applicable law regarding the claims for injunction or destruction based on patents should be interpreted as the law of the country where the patent is registered; in regard to the relevant claims for injunctions and destruction, the applicable law is the law of the United States, which is the country where the relevant patent was registered. The decision of the court of first instance in regard to the point that the applicable law was Japanese patent law or a treaty is incorrect.

3) The U.S. Patent Act, Article 271(6) provides that a person who actively encourages the infringement of a U.S. patent should be liable as an infringer. This article should be interpreted to include cases in which active encouragement is engaged in extraterritorially as long as the direct infringing conduct is engaged in within the territory of the same country. Further, Article 283 of the Act provides that a court may order an injunction where the patent has been infringed and that a court may order destruction of the infringing goods. Accordingly, by virtue of Articles 271(6) and 283, in regard to the conduct of actively encouraging the infringement of the relevant United States patents, even when this was done in Japan or the infringing goods are in Japan, there is scope to allow an injunction against the infringing conduct and the destruction of the infringing goods. However,

Japan has adopted the principle of territoriality in regard to patents as mentioned above. Hence to recognize injunctions and so on against conduct in Japan based on the relevant United States patent despite the patent of each country only having effect in the territory of that country would produce substantially the same result as extending the effect of the relevant U.S. patent to Japan, which is outside the territory of the United States, and violates the principle of territoriality adopted by Japan. Further, since there is no treaty between Japan and the United States providing that the effect of patents in one country are to be recognized mutually in each country, to order an injunction against conduct within Japan or the destruction of objects in Japan as a result of the application of United States patent law within Japan, for conduct actively encouraging infringement of the relevant United States patent is contrary to the fundamental ideology of the patent law order of Japan. Accordingly, the above provisions of the U.S. Patent Act do not apply because the ordering of injunctions or destruction against the respondent by application of the above articles of the U.S. Patent Act is found to be contrary to our country's public order referred to in the *Horei* Article 33.

- 4) Therefore, the relevant claims for injunctions and the relevant claim for destruction by the appellant based on the U.S. Patent Act have no basis as they lack the foundation in the relevant laws and ordinances for allowing them. The judgment of the court of first instance can be upheld as it reaches the same conclusions as this judgment. The reasoning of the appellant merely criticizes the theory expounded in the judgment of the court of first instance, which does not influence the above conclusion.'

Third ground for appeal

1. 'The first instance judgment as summarized below held that the previously mentioned relevant claims for compensatory damages be dismissed.

- 1) The relevant claims for compensatory damages are based on the fact that the conduct of the respondent violated the relevant United States patent, caused damage, and includes international elements. Additionally, while the claim for compensatory damages based on the violation of the foreign patent has some relationship to the effect of the foreign patent, since the claim for compensatory damages is not an issue particular to patents but ultimately has

the purpose of protecting the legal interests of the relevant society, the nature of the legal relationship is held to be a tort, and its applicable law will depend on the *Horei*, Article 11(1).

- 2) The applicable law in regard to conduct in violation of patents, including collusion and conduct aiding the tort, as an issue of tort governed by the principle of negligence, should be determined giving important weight to the conduct of the actor. In the present case, since the conduct of the respondent, which the appellant argues amounts to a tort, is wholly domestic conduct within Japan, then Japan, which is the place of the respondent's conduct, is the "place where the events causing the claims occurred" as referred to in the *Horei*, Article 11(1). Therefore the applicable law is Japanese law.
- 3) While the Civil Code, Article 709, has as one of its elements for the claim for compensatory damages in tort the fact of violating the rights of others, as there is no law or treaty about patents in Japan recognizing their effect, United States patents are not pertinent to rights protected by the tort law of Japan. Accordingly, even if we assume that conduct amounting to a violation of a United States patent was committed in Japan, the conduct cannot be a tort under Japanese law and the relevant claim for compensatory damages of the appellant cannot be admitted.'

2. 'We can uphold, in terms of its conclusion, the judgment of the court of first instance that there is no basis for the relevant claims for compensatory damages by the appellants against the respondents. The reasons are as follows.

- 1) As for the relevant claim for compensatory damages, while the relevant parties are a Japanese national and a Japanese corporation having their address or principal place of business in Japan and the claim relates to conduct within Japan, it is a legal relationship that includes an international element in that the violated interest is a United States patent. As the relevant claim for damages is based on the violation of a right to an asset held by a private person, it becomes an issue of whether there exists a right to claim for compensatory damages between private persons, making a need to determine the governing law. Further, in relation to a claim for compensatory damages based on the violation of a patent, because this is not an issue particular to patents but is merely one of the civil remedies against violations of rights to assets, the nature of the legal relationship is a tort, and the applicable law will depend on the *Horei*, Article 11(1). The decision of the

court of first instance on this point is correct.

- 2) In regard to the relevant claim for compensatory damages, as “the place where the events causing the claims occurred” as referred to in the *Horei*, Article 11(1), this should be determined as the United States where the direct violating conduct was committed against the relevant United States patent and where the result of the violations of the right arose, making the governing law be the law of the United States. However, (a) the conduct of the respondents in Japan; in the case where this is conduct actively encouraging the violation of the relevant United States patent in the U.S., we can say that the violation of rights occurred /arose in the United States and(b)even if we decide the governing law to be the law of the United States, so long as the respondent planned the import and sale in the United States by the U.S. subsidiary, this decision would not stop the ability of the respondent to foresee the consequences of their action. The decision of the court of first instance on the point that the governing law was Japanese law is not correct.
- 3) Article 284 of the U.S. Patent Act allows for compensatory damages as a civil remedy against patent violations. In respect of a person who, in Japan, has actively encouraged conduct infringing the relevant U.S. patent in the United States there is scope to allow compensatory damages. However, in that case, by virtue of the *Horei*, Article 11(2), Japanese law applies accumulatively. In this case, looking at Japanese patent law and the Civil Code, we must examine whether the conduct of actively encouraging infringements of registered patents outside the territory of the country where the patent was registered satisfies the elements for establishing a tort. Adopting the principle of territoriality, under Japanese law, which has no provision making it possible to extend the effect of patents as in Article 271(6) of the U.S. Patent Act to conduct of active encouragement outside the territory of one's own country, as long as there is no legislation or treaty allowing this, the effect of the patent does not extend to this extent. So in regard to the conduct of actively encouraging patent infringements outside of the countries of registration, this cannot be deemed unlawful and cannot be held to have satisfied the elements for establishing a tort. Accordingly, the violation of the relevant U.S. patent falls within the terms of Article 11(2) of the *Horei*, "where the events that comprise the tort occurred abroad and do not constitute a tort under Japanese law". Thus one cannot apply the above provisions of the U.S. Patent Act to the respondent's conduct.

4) Hence, the relevant claim for compensatory damages has no basis, and lacks foundation in the relevant laws or regulations. We can affirm the decision of the court of first instance as we reached the same conclusion. The reasoning of the appeal criticizes the aspects of the decision that do not influence the above conclusion.'

Conclusion

'As on the above reasons, the decision of the court of first instance can be affirmed. Notwithstanding this, in relation to the interim claim the basis for the application for the appeal is extinguished by this determination. Accordingly, apart from Justice Fujii Masao's dissenting opinion in relation to parts of the decision, the court's opinion is unanimous and we decide as per the orders above.'

Justice Kazutomo Ijima (presiding)

Justice Macao Fujii
Justice Akira Machida
Justice Takehisa Fukuzawa
Justice Kazuko Yokoo