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## Current Issues of U.S.-Japan Cross-Border IP Disputes

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# Current Issues of U.S.-Japan Cross-Border IP Disputes

Ryoichi Mimura<sup>□</sup>

## I. Introduction

Recently the legal theories in patent field have widely developed. This article introduce recent judgments of Japanese Supreme Court concerning cross border transactions.

## II. Equivalent Theory in Japan

Japanese Patent Act has no provision about equivalent patent infringement. Equivalent patent infringement is granted through judgments of the courts. That is the same as in America and other European countries. Japanese Supreme Court has granted for the first time by the judgment of Mar. 24, 1998 (1994(O)1083) on *Ball Spline Bearing* case.

The Supreme Court Judgment on *Ball Spline Bearing* case has fixed the requirements for equivalent patent infringement.

### A. The Supreme Court Judgment on *Ball Spline Bearing* Case

#### 1. *The Supreme Court Judgment on Ball Spline Bearing Case States as Follows:*

“If there is a part different from the products in the construction as indicated in the scope of the patent claims, the products cannot be regarded as falling within the technical scope of the patented invention. However, even if, within the construction as indicated in the claim in the patent specification, there is a part which is different from the products, if (a) this part is not the essential part of the

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patented invention, (b) the purpose of the patented invention can be achieved by replacing this part with a part in the products and an identical function and effect can be obtained, (c) a person who has an average knowledge in the area of technology where this invention belongs could easily come up with the idea of such replacement at the time of the production of the products, (d) the products are not identical to the technology in the public domain at the time of the patent application of the patented invention or could have been easily conceived at that time by a person who has an average knowledge in the area of technology where this invention belongs, and (e) there were no special circumstances such as the fact that the products had been intentionally excluded from the scope of the patent claim in the patent application process, the products should be regarded as identical with the construction as indicated in the scope of the patent claim and fall within the scope of the technical scope of the patented invention.”

2. *Important Points of the Judgment are Requirement (a) and (c).*

The requirement (a) means that the products must contain the essential part of the patented invention. The requirement (c) means that the easiness test for replacement of a part of claim is decided not at the time of filing an application for the patent but at the time of production of the product. Traditionally easiness test was decided at the time of patent filling, but the Supreme adopted the new theory.

After the the Supreme Court Judgment *on Ball Spline Bearing* case, courts have decide always decide equivalent patent infringement according to the Supreme Court Judgment; i.e., these 5 requirements for equivalent patent infringement have been always used by courts.

**B. Supreme Court Judgment on *Maxacalcitor* Case**

As far as the requirement (e) concerned, the Supreme Court Judgment of Feb. 24, 2017 (2016(Ju)1242) on *Maxacalcitor* case described details.

1. *The Legal Issue of the Case is as Follows:*

The appellee is a joint owner of the patent right for a process for manufacturing a compound containing maxacalcitol. The appellee asserts that the process for manufacturing pharmaceutical drugs covered by the appellants’ business is equivalent to the structure stated in the scope of claims for the appellee’s patent and therefore falls within the technical scope of the patented invention. The appellants are fighting against the appellee’s demand. While the Supreme Court Judgment on *Ball Spline Bearing* case explains the particular circumstances justifying denial of

equivalence (e.g., a circumstance here certain products or processes manufactured or used by the party adverse to a patent infringement suit were intentionally excluded from the scope of the patent claims in the course of filing a patent application for the patented invention), the appellants argue that there are particular circumstances in relation to the referenced patent and they insist that the manufacturing process for their pharmaceutical drugs is not equivalent to the structure stated in the scope of the patent claims in question.

2. *The Fact of Maxacalcitor Case is as Follows;*

2.1. Appellee's Invention

At the time of filing an application for the Patent, the appellee stated the structure of cis-vitamin D in the Scope of Claims as the starting material, etc. for manufacturing the target compound, without mentioning the structure of trans-vitamin D, which is an isomer of cis-vitamin D.

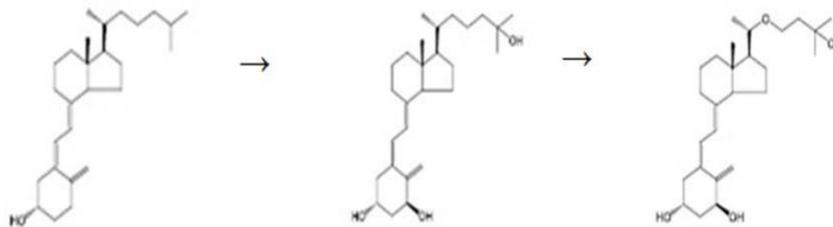
2.2. Appellants' Process

In comparing the Appellants' Process with the structure stated in the Scope of Claims, both are different with respect to the starting material, etc. for manufacturing the target compound; Trans-vitamin D is used in the former and cis-vitamin D is adopted in the latter. However, the Appellants' Process satisfies the requirements for the structure stated in the Scope of Claims in all other respects.

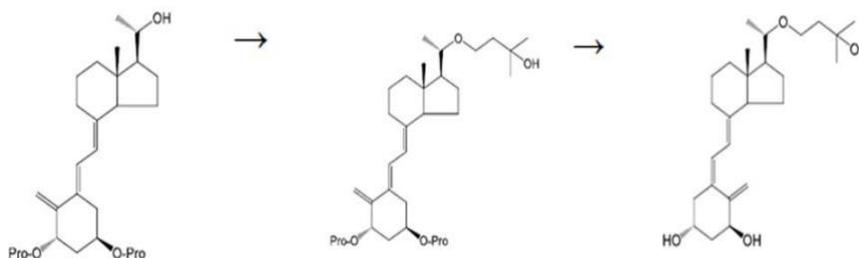
3. *Argument*

The appellants allege as follows: in connection with the parts of the structure stated in the Scope of Claims that are different from the Appellants' Process, the appellee was supposed to be able to easily conceive the structure adopted in the Appellants' Process at the time of filing the application for the Patent.

Patented Invention  
Starting Material Target Compound  
(Cis-Vitamin D)(Maxacalcitor)



Appellants' Process  
Starting Material Target Compound  
(Trans-Vitamin D) (Maxacalcitor)



Patented Invention Appellants' Process  
Starting Material Starting Material  
Cis-Vitamin D Trans-Vitamin D



#### 4. Judgment of Supreme Court

Supreme Court granted Equivalent Patent Infringement.  
The judgement of Supreme Court states as follows:

Even in a situation where the scope of patent claims written by a patent applicant did not mention the structure of certain products or processes manufactured or used by another person, which differ in part from the structure stated in the scope of claims, while the applicant was able to easily conceive the structure for the other person's products or processes at the time of filing the application, the mere fact of such omission in the scope of claims cannot imply that the other person's products or processes were intentionally excluded from the scope of the patent claims in the course of filing the application for the patented invention or that there are other particular circumstances justifying denial of equivalence in structure between another person's products or processes and the product or process stated in the scope of the patent claims.

### **III. Patent Nullity Defense in Patent Infringement Procedure**

In patent infringement procedure defendant could not assert patent nullity defense traditionally, i.e., although courts could decide nullity of patent in patent invalidation procedure, could not decide nullity of patent in patent infringement procedure. That is the same as patent infringement procedure in Germany; Japan has introduced judicial system and also patent system from Germany in 19th century. But since 2000 court decide nullity of patent also in patent procedure; the Supreme Court Judgment of Apr. 11, 2000, on *Kilby Patent* case has made it possible.

#### **A. Supreme Court Judgment on *Kilby Patent* Case**

The Supreme Court Judgment of Apr. 11, 2000 (1998(O)364) on *Kilby Patent* case states as follows:

In the event there is clear and convincing evidence that a patent is invalid, a claim for injunction, damages, or other claims based on such patent is beyond the scope of rights intended by the act, except in extenuating circumstances.

#### **B. Patent Act Article 104-3**

After the Supreme Court Judgment on *Kilby Patent* case, in 2004 Japanese Patent Act has introduced new provision about patent nullity defense in patent infringement procedure:

Patent Act Article 104-3 (Restriction on Exercise of Rights by the Patentee)

If it is found, in litigation involving the infringement of a patent right or the violation an exclusive license, that the patent should be invalidated through a trial for patent invalidation or that the registration of patent term extension should be invalidated through a trial for invalidation concerning

the registration of a patent term extension, the rights of the patentee or exclusive licensee may not be exercised against the adverse party.

#### **IV. Possibility of Patent Exhaustion Due to Distribution of Patent Object in Foreign Countries**

Domestic patent exhaustion i.e., exhaustion in patented country is traditionally granted also in Japan. The legal issue is as follows;

If the patent holder who has Japanese patent sells patented products in foreign countries, i.e., out of patented country, and the third party imports that products to Japan, then the patent holder can use his patent right, e.g., seek injunction against import and sale the products in Japan or not. Supreme Court Judgment of July 1, 1997, on *BBS* case has decided on this legal issue.

##### **A. Supreme Court Judgment on *BBS* Case**

The Supreme Court Judgment of July 1, 1997(1995(O)1988) on *BBS* case is the leading case on the said legal issue.

###### *1. Facts of BBS Case*

The case is an action of the appellant seeking an injunction against import into Japan and sale of goods which were produced and sold in Germany by the appellant and claiming damages on the basis of a patent right vis-a-vis the appellee who imported these goods into Japan by parallel import and sold them.

Facts of this case are as follows:

The appellant holds a patent concerned with car wheels in Japan. The appellant has also in Germany a patent on the invention which is the same as the patented invention in Japan. The appellee imported aluminium car wheels "BBS.RS" which are within the technical scope of the patented invention in Japan. Products of the appellee had been produced and sold in Germany as products of the patented invention by the appellant.

###### *2. Argument*

The appellee argues that the patent in Japan on the products of the appellee had lost effect by the lawful sale of those products in Germany, and therefore, the import of these products into Japan and the sale in Japan do not constitute infringement of the patent in Japan. This is the argument of so called "international exhaustion of patent rights."

###### *3. The Judgment of Supreme Court*

The judgment of Supreme Court states as follows:

If a patent holder in Japan or an equivalent person assigns a patented product outside Japan to another person, the patent holder, unless there is an agreement with the assignee excluding Japan from the areas of sale or use of the said product, may not seek an injunction in Japan concerning the patented product on the basis of the patent right against the person who acquired the product from the assignee, except in cases where the above agreement has been made and is explicitly indicated on the product.

#### *4. Comment*

The judgment of Supreme Court dismissed the claim of the appellant for an injunction and payment of damages on the basis of the patent in Japan.

Strictly speaking the Supreme court did not adopt the theory of so called “international exhaustion of patent rights,” but used the theory of implied consent. However the Supreme Court has adopted the theory that limit the patent right based on distribution of patented products by patent holder in foreign countries.

## **V. Jurisdiction of Japanese Court in Foreign Patent Dispute**

### **A. The Supreme Court Judgment on *Card Reader* Case**

The Supreme Court Judgment of Sep. 26, 2002 (2000(Ju)580) on *Card Reader* case concerns

(1) the law governing the validity of a patent right; (2) the law governing an action for prohibition and destruction of the infringing goods brought by way of holding a patent right; (3) ordering prohibition of the act of actively inducing infringement of a U.S. patent and destruction of the infringing goods located in Japan by applying the U.S. Patent Act and the meaning of “public order” as described in Article 33 of the Law Concerning the Application of Laws in General, etc..

Reference with regard to (3)

Article 33 of the Law Concerning the Application of Laws in General

If a foreign law is referred to as the governing law, when the application of the provisions therein offends public order or public morals, it should not apply.

#### *1. Facts*

The facts of *Card Reader* case are as follows:

The Appellant holds an U.S. patent on an invention titled “FM signal demodulator.” The Appellant does not hold a Japanese patent on the same invention as the said invention. The Appellee, from around 1986 to around

1991, manufactured a card reader described 1 (“the Appellee’s Product-1”) in Japan and exported to the U.S., and an American corporation wholly owned by the Appellee, Neuron Electronics Incorporated (“the U.S. subsidiary”), imported and marketed the said product in the U.S. In addition, the Appellee, from around 1992, manufactured a card reader 2 (“the Appellee’s Product-2”; referred to as “the Appellee’s Products” jointly with the Appellee’s Product-1) in Japan and exported it to the U.S., while the U.S. subsidiary imported and marketed the said product in the U.S. The Appellee’s Product-1 comes under the technical scope of the said invention.

## 2. *Argument*

In this case, the Appellant asserts that presupposing the Appellant’s Product-2 comes under the technical scope of the said invention as well and the U.S. subsidiary’s act infringes the said U.S. patent, the Appellee’s act of exporting the Appellee’s Products from Japan to the U.S., etc. falls under the act of actively inducing infringement of a U.S. patent stipulated in Article 271 (b) of the U.S. Patent Act (hereinafter “the U.S. Patent Act”) and the Appellee is liable as an infringing party of the said U.S. patent and so forth, and enters an action against the Appellee to seek (1) an injunction to prohibit the manufacture of the Appellee’s Products in Japan for the purpose of exporting to the U.S., exporting the Appellee’s Products to the U.S. and inducing the Appellee’s subsidiary in Japan and others to market or offer for marketing the Appellee’s Products in the U.S., (2) an injunction to order destruction of the Appellee’s Products in the possession of the Appellee in Japan, etc.

## 3. *The Judgment of Supreme Court*

The judgment of Supreme Court states as follows:

“The said action for prohibition and the said action for destruction of the infringing goods are actions based on a private individual’s property rights, both parties in this case are Japanese and a Japanese corporation with a residential address or domicile in Japan, and the actions are concerned with acts occurring in Japan. However, the actions involve a conflict of laws in that these are actions by way of holding a right bestowed under the U.S. Patent Act, so that it is necessary to decide on the governing law.”

Regarding the law governing the validity of a patent right, because there is no direct stipulation under the Law Concerning the Application of Laws in General and the like, in reference to the perpetual cause, it is appropriate to construe that it should be in accordance with the laws of the country having the closest bearing on the relevant patent right, namely, the

county where the patent right was registered. For (a) a patent right should be recognized as a right established through the procedures from application to registration in every single country; (b) many countries have employed the principle of territoriality for patent rights, according to which a patent right registered with each country is to be governed by the laws of the relevant country with regard to establishment, transfer, validity and the like thereof and such patent right shall come into force only within the territory of the relevant country; (c) so long as a patent right comes into force only within the territory of the relevant country, in light of the notion that the country which is required to protect the relevant patent right should be the country where the relevant patent right was registered, it is appropriate to construe that the country having the closest bearing on the relevant patent right should be the county where the patent right was registered.

Therefore, we rule that the law governing an action for prohibition and an action for destruction of the infringing goods be the law of the country where the relevant patent right was registered, and accordingly for the said action for prohibition and the said action for destruction of the infringing goods, it is adjudicated that the law of the U.S. where the said U.S. patent right was registered be the governing law.”

“Section 271(b) of the U.S. Patent Act is construed to provide that a party actively inducing infringement of a U.S. patent is held liable as an infringing party and includes the case of actively inducing infringement outside the territory of the U.S. so long as the act of direct infringement occurs within the territory of the said country. Section 283 of the said Act is construed to provide to the effect that in case of a patent right infringed, the Court may issue an injunction to prohibit such infringement and also order the destruction of the infringing goods.

Consequently, in accordance with Section 271(b) and Section 283 of the said Act, regarding the act of actively inducing infringement of a U.S. patent right, even if such act occurs in Japan or the infringing goods are located within Japan, there is room to bring an action for prohibition of the act of infringement and an action for destruction of the infringing goods.

However, Japan has employed the above-mentioned principle of territoriality, in which a patent right with an individual country only comes into effect within the territory of the relevant country bBut after all affirming an injunction to prohibit the act carried out in Japan, etc., by way of holding the said U.S. patent right would give rise to the substantially same consequence as allowing the validity of the said U.S. patent right to extend beyond its territory to our country, which is against the principle of territoriality employed in Japan. mMoreover, there is no treaty between Japan and the U.S. providing to the effect that either country holds a patent

right registered with the other country to be valid within their own territory reciprocally. Hence it must be irreconcilable with the foundation of the directives of the Japanese Patent Law to issue an injunction to prohibit an act carried out within Japan or destroy goods located within Japan as a result of applying the U.S. Patent Act to the finding that the act of actively inducing infringement of a U.S. patent was carried out within Japan.

For these reasons, it is appropriate to construe that to order the Appellee to prohibit the act or destroy goods by applying each of the above-mentioned provisions of the U.S. Patent Act is contrary to the meaning of "public order" as described in Article 33 of the Law Concerning the Application of Laws in General, and it is adjudicated that each of the above-mentioned provisions of the U.S. Patent Act shall not apply.

Therefore, the said action for prohibition and the said action for destruction of the infringing goods brought by the Appellant pursuant to the U.S. Patent Act are ruled not justified for reasons, lacking grounds substantiated by law."

#### 4. *Comment*

The Supreme Court has granted territorial jurisdiction of Japanese courts for this case.

The summary of the judgment is as follows:

(1). The law governing the validity of a patent right shall be the law of the country where the patent in question was granted: in this case U.S. Patent Act.

(2). The law governing an action for prohibition and destruction of the infringing goods brought by way of holding a patent right shall be the law of the country where the patent in question was granted: in this case U.S. Patent Act.

(3). To order prohibition of the act of actively inducing infringement of a U.S. patent and destruction of the infringing goods located in Japan by applying the U.S. Patent Act is contrary to the meaning of "public order" as described in Article 33 of the Law Concerning the Application of Laws in General.

## **VI. Possibility of Enforcement by Japanese Courts for a Foreign Judgment which Ordered Payment of Punitive Damages**

The Supreme Court Judgment of July 11, 1997 (1993(O)1762) is upon case of the possibility of rendering an enforcement judgment for a foreign judgment which ordered payment of the so-called punitive damages.

Reference:

Article 200, subpara.3, Code of Civil Procedure[replaced by the new Code in 1998 and currently the same provision stands as Article 118, subpara.3, Code of Civil Procedure].

Judgments of foreign courts which have taken effect are valid only when they meet the following requirements:

(3) judgment of the foreign court is not against public order and good morals of Japan

### *1. Facts*

The facts of the case are as follows:

The case involves a claim by the appellee requesting the enforcement of a judgment of the Court of the State of California, USA. The Civil Code of the State of California, USA, has a provision which allows the plaintiff to receive punitive damages for the purpose of deterrence and sanction on the defendant in addition to damages for the actual loss in litigation on the ground of breach of non-contractual duties, if there was an fraudulent act or similar acts on the part of the defendant (Article 3294).

The Superior Court of California ordered the appellees to pay compensatory damages of 425,251 dollars and the cost of 40,104 dollars 71 cents, and in addition, ordered the appellee company to pay punitive damages of 1,125,000 dollars by the judgment of May 19, 1982 (hereinafter, “the foreign judgment in the present case”) on the ground that the appellees effected fraudulent acts against the appellants in relation to the conclusion of a lease agreement between the appellant and a subsidiary of the appellee, Marman Integrated Circuit Inc.

Both the appellants and appellees appealed against this judgment to the Appellate Court of California, but the Court dismissed the appeal on May 12, 1987, and the foreign judgment in the present case came into effect.

### *2. The Judgment of Supreme Court*

The judgment states as follows:

“In a claim for an enforcement judgment, whether the given foreign judgment fulfils the requirements of subparagraphs of Article 200 of the Code of Civil Procedure (Art.24, para.3 of the Law on Civil Enforcement) is examined. Article 200 of the Code of Civil Procedure requires that the foreign judgment should not contradict public policy and good morals of Japan. One may not conclude that this requirement is not fulfilled solely by the fact that the foreign judgment contains an institution which does not exist in Japan, but if the given institution is against the basic principles or basic ideas of

the legal order in Japan, the judgment should be regarded as being against public order in the above-cited provision.”

It is evident that the system of punitive damages as provided by the Civil Code of the State of California (hereinafter, “punitive damages”) is designed to impose sanctions on the culprit and prevent similar acts in the future by ordering the culprit who had effected malicious acts to pay additional damages on top of the damages for the actual loss. And judging from the purposes, is similar to criminal sanctions such as fines in Japan. In contrast, the system of damages based upon tort in Japan assesses the actual loss in a pecuniary manner, forces the culprit to compensate this amount, and thus enables the recovery of the disadvantage suffered by the victim and restores the status quo ante (Judgment of the Supreme Court, 1988 (O) Case No.1749, Judgment of the Grand Bench, March 24, 1993, Minshu 47-4-3039), and is not intended for sanctions on the culprit or prevention of similar acts in the future, i.e., general prevention. Admittedly, there may be an effect of sanctions on the culprit or prevention of similar acts in the future by imposing a duty of compensation on the culprit, but this is a reflective and secondary effect of imposing the duty of compensation on the culprit, and the system is fundamentally different from the system of punitive damages whose goals are the sanctioning of the culprit and general deterrence. In Japan, sanctioning of the culprit and general deterrence is left to criminal or administrative sanctions. Thus, the system in which in tort cases, the victim is paid damages for the purpose of imposing sanction on the culprit and general deterrence in addition to damages for the actual loss should be regarded as against the basic principles or basic ideas of the system of compensation based upon tort in Japan.

Therefore, part of the foreign judgment in the present case which ordered the appellee company to pay punitive damages for the purpose of deterrence and sanction in addition to compensatory damages and the cost is against public order of Japan and therefore, has no effect.

Thus, the judgment of the original instance which dismissed the claim for enforcement judgment on the part of the foreign judgment in the present case ordering the appellee company to pay punitive damages should be upheld.”

### 3. *Comment*

The summary of the judgment of Supreme Court is as follows:

Enforcement judgment cannot be rendered on the part of the foreign judgment which, in addition to the compensatory damages, ordered payment of punitive damages for the purpose of deterrence and sanction.

This judgment of Supreme Court has effects for all civil cases, and has a big influence for courts also now. I believe that in the field of intellectual

property dispute punitive damage system is effective to enforce IP rights in practice, but it is very difficult to introduce punitive damage system into Japan because of the existence of this judgment.

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