Patent Law / Conflict Law / Torts Law: Damages / Extraterritoriality

Fujimoto Akira v. Kabushiki Kaisha Newlon

Supreme Court of Japan, First Petty Bench / Decided Sept. 26, 2002 / Case No. *Hei* 12/580 (Patent Law, Section 102; Conflict Law (*Horei*), Section 11 and 33; Civil Code, Section 709)

SUMMARY
1. Governing law of a claim for injunction and destruction of infringing goods under a patent right is the law of the country where the patent issued.
2. Injunction of acts in Japan to actively induce infringement of a US patent or destruction of allegedly infringing products in Japan, by way of applying the US patent, is contrary to "public order" as defined in the *Horei,* Section 33.
3. The damages claim regarding acts in Japan to actively induce infringement of the US patent should be addressed by U.S. law.
4. Conducting acts to actively induce infringement of the U.S. patent in Japan amounts to the situation where "facts occuring in a foreign country are not tortuous under Japanese law."

> "The *Horei*", or Conflict of Laws, reads as follows (translation by the author):
> Section 11-1: The generation and the effect of obligation caused by *negotiorum gesto* and undue profits or torts shall be governed by the law of the country where the tort has taken place.
> Section 11-2: If facts occuring in a foreign country are not tortuous under Japanese law, the foregoing paragraph, Section 11-1, shall not be applied.
> Section 33: In the case where a foreign law is applicable, but the application of such foreign law is inappropriate in view of public order or good faith, such foreign law shall not be applied.

FACT

Plaintiff, Fujimoto, owns US Patent No. 4,540,947 ('947 patent) relating to a FM signal demodulating device. Plaintiff had no counterpart patent in Japan. Defendant, Newlon, is a Japanese manufacturer of card readers. Newlon Electronics Inc., fully owned by the Defendant, imported into and sold in the United States Defendant's card readers which met all elements of the Plaintiff's patent claim.

Plaintiff brought a suit before the Tokyo District Court, (not a U.S. Court, emphasis added), requesting the injunction of patent infringement by the Defendant based on the '947 patent. In addition to an injunction, Plaintiff sought destruction of the infringing products and damages under the same US patent. For these claims, the Plaintiff reasoned: 1) Defendant manufactured allegedly infringing products in Japan for the

purpose of importation into the United States; 2) Such products were actually imported into the United States; and 3) Defendant unduly solicited its US affiliated company to engage in the sale of allegedly infringing products.

The District Court dismissed the claim for injunction and destruction based on the Conflict of Laws under which the application of US laws to conduct in Japan is against the principle of legal order ("*Horei"*, Section 33). As for the damages claim, the court dismissed it based on the *Horei*, Section 11 which sets forth that tortuous acts in Japan should be governed by Japanese law. (*Fujimoto Akira v. Kabushiki Kaisha Newlon,* Tokyo District Court, 46th Division, Decided April 22, 1999; *See AIPPI Journal*, September 1999, pp. 205-207)

The Plaintiff appealed the decision of the District Court to the Tokyo High Court but the High Court dismissed the appeal. In dismissing, the court elaborated that Japanese patent law was applicable to the claim for injunction and destruction in this case and that there was no governing law issue to be addressed under the *Horei*. As for the damages claim, the court decided that governing law should be chosen under the *Horei*, Section 11-1. As a result, the court awarded that Japanese law governs the case. (*Fujimoto Akira v. Kabushiki Kaisha Newlon,* Tokyo High Court, Decided Jan. 27, 2000, Case No. *Hei* 11(ne)3059)

The Plaintiff appealed the High Court's decision to the Supreme Court.

HOLDING

The Supreme Court dismissed the appeal.

(1) Governing Law

The Supreme Court dismissed the claim for injunction and destruction of infringing products which were allegedly infringing the '947 patent. In dismissing, the Supreme Court stated that the dispute includes a choice of law issue which requires the determination of governing law by the court. Citing its prior decision in the Case, *Hei* 7 (wo) 1988, decided July 1, 1997, the court stated:

> So far as there are patent-related disputes among private parties, the principle of patent independence does not eliminate determination of governing law under the *Horei*. Based on the precedent of this court, we conclude that the finding of the lower court on this specific issue is erroneous. …. The claim for injunction and destruction under a US patent is different from torts law claim in nature and purpose. The latter aims at compensating a claimant for past damage and injury in view of justice and equity. For such a claim, the nature of the legal relationship is enforcement of a patent. … However, there are no provisions in the *Horei* directly applicable to patent enforcement. Therefore, a *jyori* (good reason and common

sense) should address that issue. A reasonable interpretation is that governing law should be chosen from the country where the subject patent was issued. … Governing law of this case is the law of the United States of America. The judgment by the lower court that governing law is the Japanese Patent law or a relevant treaty is therefore erroneous.

(2) Extraterritoriality

Under US laws, relief is available for contributory infringement (35 USC 271b & 283). However, enforcement of a US patent in Japan is against Japanese laws and the principle of territoriality. There are no treaties between Japan and the United States allowing enforcement of a US patent in Japan. Such enforcement is contrary to public order under the *Horei*, Section 33.

(3) Damages Claim

On the damages claim, the Supreme Court stated:

Plaintiff's damages claim has arisen out of alleged infringement of the '947 patent by the Defendant. This case inherently includes a conflict of law issue since the parties to the case are Japanese, infringement was conducted in Japan, and the patent at issue is a US patent. This claim is based on infringement of property owned by a private party. The issue here is whether a right to claim damages exits between the private parties. This court has to determine governing law.

Damages claim for patent infringement is not a proprietary matter of patent rights. Rather it is a civil relief against infringement of property. The nature of the legal relationship is tort whose governing law should be chosen in view of the *Horei*, Section 11-1. The High Court's interpretation in this respect is correct.

The "country where the tort has taken place" as defined in the *Horei*, Section 11-1, should be the United States of America where direct infringement was conducted and infringement occurred.

The US Patent Act, Section 284 sets forth damages claim as a civil relief from patent infringement. An actively inducing party may likely be liable for damages under Section 271(b) and Section 284 of the US Patent Laws (Title 35, US Code). In such a case, however, the *Horei*, Section 11-2 is applied and whether inducing acts outside the country of the patent right have met requirements of torts is considered in view of the Patent Law and the Civil Code in Japan.

Japan adapts the principle of territoriality and there are no legislation or treaties

> allowing extraterritoriality. This leads us to believe that such inducement is not tortuous, failing in meeting the requirements of torts.
>
> Since infringement of the US patent does not amount to the situation as set forth in the *Horei*, Section 11-2 ([F]acts occurring in a foreign country are not tortuous under Japanese law), it is not appropriate to apply the above-mentioned provisions of the US Patent Law to the conduct of the Defendant [in Japan].

(4) Dissenting Opinions

On the damages claim, Chief Judge Ijima wrote a concurring opinion and Judge Machida and Judge Fujii wrote dissenting opinions. The concurring opinion, while supporting the conclusion of the court opinion, focuses on rebuttals to the dissenting opinion written by Judge Fujii. Here are summaries of the dissenting opinions written by the two judges.

1) Judge Machida

Judge Machida was agreeable to the conclusion of the court that governing law for the damages claim in this case is the *Horei*, Section 11-1. But he did not agree to the reasons elaborated on by the court. The point of arguments was the interpretation of the provision "[T]he generation and the effect of obligation caused by torts shall be governed by the law in a country where causes or tort have taken place." (the *Horei*, Section 11-1). J. Machida wrote:

> The majority opinion took it [governing law] as the United States law, while the lower court interpreted as the Japanese law. However, specific acts alleged as having constituted infringement of the US patent were conducted in Japan. Parties to this case are Japanese citizens living in Japan and having offices for business in Japan. Alleged damage took place to the Plaintiff. Taking these facts into account, the governing law should be the Japanese, as the lower court found.
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> In Japan, there are no laws and rules to prohibit the manufacture and exportation of the Defendant's products. Rather, the record shows that the Plaintiff exploited its own patent to manufacture the allegedly infringing products. Under provisions of the Civil Code and the Patent Law, conducts of the Defendant have constituted nothing wrong and legal. There is no room to find them tortuous.

2) Judge Fujii

Judge Fujii was not agreeable to the majority opinion on the damages claim, while he was agreeable to the choice of the US law as the governing law. His dissent was that the court opinion failed in weighing causal relationship between inducing acts in Japan and

resulting infringement in the United States. J. Fujii wrote:

> Under the Civil Code, Sections 709 and 719-2, acts of actively inducing patent infringement should be regarded as acts of conspiring or contributing patent infringement. The person engaged in such acts should be considered to be jointly liable for direct infringement, thereby bearing liability for damages. Torts, therefore, can be constituted even under Japanese law. Such construction would allow joint liability on the inducing party, while preventing the direct application of the US patent to the inducing acts in Japan. This interpretation does not breach the principle of territoriality.

COMMENT

In this case, the conclusion of the court remained unchanged from the lower courts: Relief from infringement of a foreign patent cannot be sought in Japan. However, logistics is not the same regarding the choice of governing law.

When parties to a property case involve different nationalities, then, governing law has to be determined first. The *Horei*, or the Japanese Conflict of Laws, sets forth the rule and procedures for determining governing law. Under the *Horei*, Section 11, there are two approaches for determining governing law: one is a "place of tortuous acts" and the other is a "place of suit" approach. In this case, the court opinion followed the former, which has led the court to conclude that the governing law is the Patent Law of the United States where infringement has taken place.

This case is unusual in two respects. First, the Supreme Court elaborated on the choice of the law issue in the patent case. There is one precedent in which the choice of law issue was considered (*Nihon Musen Tsushin v. Matsushita Ind., Co. Ltd.,* Tokyo District Court, 1953). In this case, the plaintiff owned a patent in Manchuria, a Japanese colony located in the north-eastern part of the Asian continent before World War II. The defendant incorporated into its vacuum tube products, components purchased from a licensee of the defendant under the plaintiff's counterpart patent in Japan. The defendant imported its vacuum tube products into Manchuria and the plaintiff brought a suit in the Japanese court claiming damages under the patent in Manchuria. The Tokyo District Court dismissed the claim in view of the principle of patent independence.

Second, the opinions of the court judges are diversified regarding the choice of law for a damages claim. One judge wrote a dissent and Chief judge wrote a concurring opinion, rebutting the arguments raised in the dissent. In patent cases, i is quite rare and unusual that the Supreme Court's decision includes opinions for dissent and/concurring.

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