

# *Fordham International Law Journal*

---

*Volume 26, Issue 2*

2002

*Article 7*

---

## The Territoriality Principle of Patent Protection and Conflict of Laws: A Review of Japanese Court Decisions

Teruo Doi\*

\*

Copyright ©2002 by the authors. *Fordham International Law Journal* is produced by The Berkeley Electronic Press (bepress). <http://ir.lawnet.fordham.edu/ilj>

# The Territoriality Principle of Patent Protection and Conflict of Laws: A Review of Japanese Court Decisions

Teruo Doi

## **Abstract**

Among the various categories of intellectual property, the territoriality principle is applied most strictly to patent protection of inventions and copyright protection of works of authorship. The basic international standards for patent and copyright protections are set forth, respectively, in the Paris Convention for the Protection of Industrial Property and the Berne Convention for the Protection of Literary and Artistic Works. As of April 15, 2002, 163 States are members of the Paris Union and 149 States are members of the Berne Union. Japan acceded to the Paris and Berne Conventions in 1899. A patent granted in one country has no effect beyond the territorial boundary of that country and cannot be infringed upon in other countries. Almost all patent infringement actions filed with the Japanese courts involve Japanese patents and there is no need to discuss conflict of laws in these cases. This Essay will take up a handful of non-Japanese patent cases brought in the Japanese courts, discuss conflict of laws aspects in those cases, and clarify the applicability of the territoriality principle.

## ESSAY

# THE TERRITORIALITY PRINCIPLE OF PATENT PROTECTION AND CONFLICT OF LAWS: A REVIEW OF THE JAPANESE COURT DECISIONS

*Teruo Doi\**

### INTRODUCTION

Among the various categories of intellectual property, the territoriality principle is applied most strictly to patent protection of inventions and copyright protection of works of authorship. The basic international standards for patent and copyright protections are set forth, respectively, in the Paris Convention for the Protection of Industrial Property<sup>1</sup> and the Berne Convention for the Protection of Literary and Artistic Works.<sup>2</sup> As of

---

\* Teruo Doi is Professor Emeritus of Waseda University, a member of the Daini Tokyo Bar Association, and Of Counsel to Kashiwagi Sogo Law Offices in Tokyo. He is also an Adjunct Professor of Law at Sapporo University Graduate Law School and at Tohoku Gakuin Graduate Law School. Since the summer of 1987, the author has been regularly teaching intellectual property law for the Tokyo Summer Program organized by the Institute of International and Comparative Law of Santa Clara University School of Law. During the fall semester of 2001, the author taught international and comparative intellectual property law at Santa Clara University School of Law. The author is a Panel Member of the WIPO Arbitration and Mediation Center, the Japan Intellectual Property Arbitration Center, and the Japan Commercial Arbitration Center. The author's books include: *INTELLECTUAL PROPERTY LAW OF JAPAN* (Sijthoff Noordhoff Int'l Pub., 1980); *THE TRADEMARK AND UNFAIR COMPETITION LAW OF JAPAN* (AIPPI Japan, 1980); *INTELLECTUAL PROPERTY PROTECTION AND MANAGEMENT: LAW AND PRACTICE IN JAPAN* (Waseda Univ. Inst. of Comp. Law, 1992); *INTERNATIONAL BUSINESS TRANSACTIONS: CONTRACT AND DISPUTE RESOLUTION* (Waseda Univ. Inst. of Comp. Law, 1996); and *JAPANESE COPYRIGHT LAW IN THE 21ST CENTURY* (Oceana Pub., 2000).

1. Paris Convention for the Protection of Industrial Property, March 20, 1883, *revised at* Brussels on Dec. 14, 1900, *revised at* Washington on June 2, 1911, *revised at* the Hague on Nov. 6, 1925, *revised at* London on June 2, 1934, *revised at* Lisbon on Oct. 31, 1958, *revised at* Stockholm on July 14, 1967, 21 U.S.T. 1538, 828 U.N.T.S. 305 [hereinafter Paris Convention].

2. Berne Convention for the Protection of Literary and Artistic Works of Sept. 9, 1886, *completed at* Paris on May 4, 1896, *revised at* Berlin on Nov. 13, 1908, *revised at* Berne on Mar. 20, 1914, *revised at* Rome on June 2, 1928, *revised at* Brussels on June 26, 1948, *revised at* Stockholm on July 14, 1967, *revised at* Paris on July 24, 1971, *amended on* Oct. 2, 1979, S. Treaty Doc. No. 27, 99th Cong., 2d Sess. (1986), 828 U.N.T.S. 221.

April 15, 2002, 163 States are members of the Paris Union and 149 States are members of the Berne Union. Japan acceded to the Paris and Berne Conventions in 1899.

Under the Berne Convention, a work of authorship first published in any country of the Union, or an unpublished work authored by a national of any country of the Union, is accorded national treatment in other countries of the Union, and copyright accrues automatically, not being subject to any formality, in all the countries of the Union at the moment of creation.<sup>3</sup> Copyrights in a given work secured in various countries of the Union are independent of each other, and must be enforced on a country-to-country basis. However, in the publishing industry, it is the usual practice that an author assigns worldwide copyrights to the publisher even in advance of the creation of the work. The copyright in a given country cannot be infringed upon outside of its territory, and, therefore, a choice of law issue does not usually arise in copyright infringement cases.

Under the Paris Convention, an inventor who is a national of any country of the Union is accorded national treatment in other countries of the Union in securing patent protection for his invention.<sup>4</sup> When an inventor is employed, he is often asked to assign his future inventions so that the employer can select a small number of countries in which to file patent applications. The most important function of the Paris Convention is to give a priority of twelve months to a patent application filed in any country of the Union in the filing of applications in other member countries.<sup>5</sup> The patent office of a country where an application is filed and an examination is demanded, conducts an examination independently and a patent granted in one country is independent of corresponding patents granted in other countries. Article 4(1) of the Paris Convention sets out this principle of independence of patents.<sup>6</sup>

Thus, a patent granted in one country has no effect beyond

---

3. *Id.* art. 5 Secs. 1, 2 and 5.

4. *See* Paris Convention, art. 2, para. 1.

5. *Id.* art. 4, sec. A, cl. 1; sec. B; sec. C, cl. 1.

6. *Id.* art. 4, cl. 1. Art. 4, cl. 1 provides:

Patents applied for in the various countries of the Union by nationals of countries of the Union shall be independent of patents obtained for the same invention in other countries, whether members of the Union or not.

*Id.*

the territorial boundary of that country and cannot be infringed upon in other countries. Almost all patent infringement actions filed with the Japanese courts involve Japanese patents and there is no need to discuss conflict of laws in these cases. This Essay will take up a handful of non-Japanese patent cases brought in the Japanese courts, discuss conflict of laws aspects in those cases, and clarify the applicability of the territoriality principle.

I. DENIAL OF APPLICATION OF A PATENT LAW OF A  
FOREIGN COUNTRY UNDER CONFLICT OF LAWS  
RULES OF THE FORUM

It is interesting to see how Japanese courts react when an owner of a patent granted in a foreign country brings a patent infringement action against a defendant residing in Japan. When a civil action brought in a Japanese court involves a foreign element, a court must first determine the governing law under the conflict of laws rules provided in *Horei*.<sup>7</sup> There are at least two reported cases in which an owner of a foreign patent brought an infringement action in a Japanese court. Since such an action is a kind of tort action, the governing law must first be determined under Article 11 of *Horei*, which provides:

- (1) The creation and effects of an obligation arising from management of affairs without mandate, unjust enrichment, or a tortuous act, shall be governed by the law of the place where the facts constituting the case occurred.
- (2) With regard to a tortuous act, the preceding paragraph shall be inapplicable where the facts occurred in a foreign country are not unlawful under the law of Japan.
- (3) Even if the facts occurred in a foreign country are unlawful under the law of Japan, the injured person may claim only such damages or other dispositions as are recognized by the law of Japan.<sup>8</sup>

When the result of applying the governing foreign law violates the public order (*kojo*) of the forum, a court may exclude such foreign law and apply the forum law instead. This rule is set out in Article 33 of *Horei* as follows: “[i]n a case where the

---

7. *Horei* [Act to Establish Rules for the Application of Laws], Law No. 10 of 1898. For the author’s English translation of *Horei*, see TERUO DOI, INTERNATIONAL BUSINESS TRANSACTIONS: CONTRACT AND DISPUTE RESOLUTION, ch. 7, 209-18, app. C (Waseda Univ. Inst. of Comp. Law, Tokyo, 1996).

8. *Id.* art. 11 (author’s trans.).

law of a foreign country is applicable, but the application of its provisions violates public order or good morals, such law shall not be applied.”<sup>9</sup>

The first case in which the owner of a foreign patent brought an infringement action in the Japanese courts is *Nihon Wireless Communication KK v. Matsushita Electric Industry KK*.<sup>10</sup> In this case, the plaintiff Nihon Wireless Communication KK (“Nihon Wireless”) obtained a patent from the former nation of Manchukuo in 1937. The patent covered a multi-polar bulb for radio sets. Tokyo Shibaura Electric KK (“Tokyo ShiBaura”), the predecessor of Toshiba Electric, obtained a license to manufacture and distribute the bulbs under Nihon Wireless’ corresponding Japanese patent. The defendant Matsushita Electric Industry KK (“Matsushita”) purchased these bulbs from Tokyo Shibaura and installed them in radio sets. Matsushita exported 195,000 units of the radio sets to Manchukuo from 1939 to 1943. Nihon Wireless brought an action in the Tokyo District Court to recover damages from Matsushita for infringing on the Manchukuo patent owned by the former.

The court applied Article 11(2) of *Horei* and dismissed the plaintiff’s action, holding that, under the principle of independence of patents, the plaintiff’s Manchukuo patent had no effect in Japan. Therefore, since the alleged act of infringement was committed in Japan, it was in fact legal, and the plaintiff’s action should be dismissed under Article 11(2).

This decision has been criticized as misinterpreting Article 11(2). Article 11(2) should not be invoked where the act in question was committed in Japan and would infringe a similar Japanese patent.<sup>11</sup>

From the standpoint of private international law, the Supreme Court’s recent decision in *Akira Fujimoto v. KK Newlon*<sup>12</sup> is very important. The highest court thoroughly reviewed the lower court’s conflict of laws analysis in refusing the application

9. *Id.* art. 33 (author’s trans.).

10. *Nihon Musentsushin KK v. Matsushita Denkisangyo KK*, 4 KAKYU MINSHU 847 (Tokyo Dist. Ct., June 12, 1963).

11. See Teruo Doi, *Kokusaitorihikiho Kihonhanrei in CASES ON INTERNATIONAL BUSINESS TRANSACTIONS* 182-83 (Dobunkan Shuppan KK, 1994).

12. *Akira Fujimoto v. KK Newlon*, reported online (Sup. Ct., 1st Petty Bench, Sept. 26, 2002).

of the U.S. Patent Act<sup>13</sup> to the defendant's act, which was committed in Japan and was alleged to constitute a contributory infringement of the plaintiff's U.S. patent.

In this case, the plaintiff Akira Fujimoto ("Fujimoto") was the owner of a U.S. patent<sup>14</sup> for an invention entitled "FM Signal Demodulating Apparatus".<sup>15</sup> Fujimoto did not have a corresponding Japanese patent for his invention. The defendant KK Newlon ("Newlon") was engaged in the manufacture and sale of card readers that could demodulate FM digital signals. Newlon distributed its products in the United States through its wholly owned subsidiary, Newlon Electronics, Inc. ("Newlon Electronics"). From 1986 to 1991, Newlon manufactured card readers and sold them to Newlon Electronics. Newlon began to manufacture another type of card readers and was supplying the products to Newlon Electronics.

Fujimoto brought an action against Newlon in the Tokyo District Court to: (1) enjoin Newlon from manufacturing the products, exporting them to the United States, and inducing Newlon Electronics to distribute the products in the U.S. market; (2) require Newlon to destroy the products in its inventory; and (3) recover damages caused by Newlon's tortuous acts, or recover unjust enrichment in lieu of damages that have become unrecoverable by an extinctive prescription (i.e., statute of limitation). Fujimoto alleged that Newlon's products fell under the technical scope of Fujimoto's U.S. patent; that sale of these products by Newlon's subsidiary in the United States infringed Fujimoto's patent; and that Newlon's export of these products to its subsidiary constituted an active inducement to infringe a patent under Section 271(b) of the U.S. Patent Act.<sup>16</sup>

The Tokyo District Court dismissed Fujimoto's action.<sup>17</sup> The court reasoned that Sections 271(b) and (c) of the U.S. Patent Act assume extraterritorial application to acts of contributory infringement committed outside the United States. These provisions are incompatible with the basic principle of Japan's

13. 35 U.S.C.A. Secs. 1-376.

14. No. 4,540,947.

15. Application filed on June 22, 1983, and patent granted on Sept. 10, 1985.

16. *See* 35 U.S.C.A. Sec. 271. Section 271(b) provides that "whoever actively induces infringement of a patent shall be liable as an infringer." *Id.*

17. Akira Fujimoto v. KK Newlon, 1691 HANREI JIHO 11 (Tokyo Dist. Ct., Apr. 22, 1999).

patent system, which is based on the internationally recognized territoriality principle of protection of industrial property, including patents. Applying the extraterritorial application provision of the U.S. Patent Act would violate public order in Japan and its application in Japan should therefore be refused under Article 33 of *Horei*.

As to the plaintiff's claim for damages caused by the acts that allegedly infringed the U.S. patent and were committed in Japan, the court held that such a claim is not an issue inherent to the patent right concerned. Therefore, its governing law should be determined first, in accordance with Article 11 of *Horei*, which directs the application of Japanese law as *lex loci delicti*.<sup>18</sup> Also, under Article 709, the basic tort provision of the Civil Code,<sup>19</sup> the defendant's acts in question are not tortuous because a patent right of a foreign country does not have an extraterritorial effect.

On appeal, the Tokyo High Court affirmed the District Court's dismissal of Fujimoto's claims for injunction and damages.<sup>20</sup> As to Fujimoto's claim for injunction and destruction of unsold products, the High Court held that:

(1) Patent rights are subject to the internationally recognized territoriality principle and, even in a situation where an act of infringing a foreign patent right is committed in Japan, a claim for injunction and destruction based on that foreign patent right should not be brought in a court of Japan in the absence of a special statute or treaty providing otherwise. Moreover, there is no room for an issue of choice of governing law to come out in this case. Accordingly, the appellant's claim should be dismissed.

(2) Assuming that the appellant's claim of injunction and destruction involves a foreign element, *Horei* lacks a provision specifying the governing law to the effect of patent rights, and, hence, such a governing law must be determined according to the rule of reason (*jori*). According to *jori*, the governing law is the patent law of Japan or a treaty because both parties are, respectively, a national and a corporation of Japan, domiciled in

---

18. See *Horei*, art. 11.

19. Civil Code, Law No. 89 of 1896, art. 709.

20. Akira Fujimoto v. KK Newlon, *reported online* (Tokyo High Ct., Jan. 27, 2000) [hereinafter *Newlon 2*].



Japan. Moreover, the allegedly infringing acts were committed in Japan and the situs of the products under a claim of destruction is Japan. However, there is no provision in the Japanese patent law that permits an injunction against active inducement to infringe a foreign patent right in Japan, and there is no treaty between Japan and the United States providing mutual recognition of the effect of patent rights granted by the other party.<sup>21</sup>

As to Fujimoto's claim for damages, the High Court held that the governing law should be determined first, because foreign elements exist in the case. The court determined that this is a tort claim against acts committed in Japan, and hence, under *Horei* Article 11(1), Japanese law, including Article 709 of the Civil Code, governs as the law of "the place where the facts constituting the case have occurred."<sup>22</sup> Even if the appellee's acts in question committed in Japan infringe a U.S. patent, such acts are not tortuous acts in Japan in the absence of any statute or a treaty requiring recognition of the effect of a U.S. patent right excluding the territoriality principle. Accordingly, the appellant's claim for damages should also be dismissed.<sup>23</sup>

The Supreme Court, 1st Petty Bench, upheld the High Court's dismissal of Fujimoto's appeal, but corrected the lower court's conflict of laws analysis.<sup>24</sup> First, with respect to the appellant's claim for injunction and destruction of the appellee's inventory, the court noted that:

(1) The appellee's claim for injunction and destruction involves foreign elements in a number of respects and, therefore, the governing law must be determined first. The territoriality principle with respect to patents means that the effect of patents granted by various countries is recognized only within the territorial boundaries of each granting country. This does not mean that the determination of the governing law under *Horei* in a dispute between two private parties over a foreign patent right is unnecessary. The High Court erred in holding otherwise.

(2) The appellant's claim for injunction and destruction based on a U.S. patent should be characterized as the "effect" of a patent right. Since *Horei* does not contain a provision addressing

---

21. *Id.* (author's trans.).

22. See *Horei*, art. 11(1) (author's trans.).

23. See *Newlon 2* (author's trans.).

24. See *Akira Fujimoto v. KK Newlon*, 51 MINSHU 2299 (Sup. Ct. 3rd Petty Bench, July 1, 1997) [hereinafter *KK Newlon 3*].

such an issue, the governing law must be determined under the rule of reason (*jori*) and it is the law of the country which has the closest connection to the patent right at issue, i.e., the country where the patent right is registered. Thus, the law governing the claims of injunction and destruction is the law of the United States where the patent right is registered. The High Court erred in holding that the governing law is the patent law of Japan or a treaty.

(3) Section 271(b) of the U.S. Patent Act is interpreted to apply to an act of active inducement to infringe a patent committed abroad, so long as the actual infringement occurs in the United States. Section 283 of the same Act empowers the court to issue an injunction order.<sup>25</sup> If Sections 271(b) and 283 are read together, active inducement of infringement of a U.S. patent in Japan or alleged infringement of goods located in Japan may be subject to the court's order of injunction or destruction. Such a result violates the territoriality principle on which the Japanese patent law is based. Granting an injunction against acts committed in Japan or issuing an order of destruction of goods located in Japan is incompatible with the fundamental principle of the patent order of Japan. Hence, granting an injunction or a destruction order applying the above provisions of the U.S. Patent Act violates public order of Japan under Article 33 of *Horei*. The appellant's claims of injunction and destruction based on the U.S. Patent Act have no force and lack the legal basis to support them. The lower court's decision to the same effect shall be upheld.<sup>26</sup>

With respect to the appellant's claim for damages:

(1) This is also a legal relationship involving foreign elements and, therefore, the governing law must be determined first. This is a tort claim and the governing law must be determined under Article 11(1) of *Horei*.

(2) The governing law of the appellant's claim for damages is the law of the United States, because the act of direct infringement of the appellant's U.S. patent took place in the United States and, hence, the United States is "the place where the facts constituting the case have occurred" under Article 11(1) of

---

25. See 35 U.S.C.A. Sec. 283.

26. See *KK Newton 3* (author's trans.).

*Horei*.<sup>27</sup> Since importation and distribution of the allegedly infringing goods are done by the appellee's U.S. subsidiary, the appellee's foreseeability is not hampered. The High Court erred in choosing Japanese law as the governing law of tort.

(3) Section 284 of the U.S. Patent Act provides a civil remedy of damages against patent infringement.<sup>28</sup> It is likely that a person who was actively induced in Japan to infringe a U.S. patent will be subject to liability for damages under Sections 271(b) and 284 of the U.S. Patent Act. However, in such a case, Japanese law is cumulatively applicable under Article 11(2) of *Horei*. In the instant case, the question to be examined is whether an act of actively inducing infringement of a patent, committed outside the territory where the patent was granted, constitutes a tortious act in the country where the act took place. Under the territoriality principle, the effect of a patent granted by a country which gives extraterritorial effect over an act of actively inducing infringement in another country, like Section 271(b) of the U.S. Patent Act, does not extend to a country like Japan, which has no equivalent provision, unless a special statutory provision or a treaty provides otherwise. In the instant case, the act of infringing a U.S. patent can be classified as a situation "where facts occurred in a foreign country are not unlawful under the law of Japan" under Article 11(2) of *Horei*. Hence, Section 271(b) of the U.S. Patent Act should not be applied in the instant case.<sup>29</sup>

Among the five Justices presiding over the case, one Justice dissented and two Justices submitted supplemental opinions as to the possibility of imposing joint tort liability on the appellee for active inducement of a tort committed abroad.

*Fujimoto v. Newlon* involves foreign elements as to both, the plaintiff's claims for injunction and destruction and for damages, so the governing law must be determined first under the conflict rules of the forum, as the Supreme Court correctly held. In this case, it can be simply said that the place of tort — i.e., the defendant's alleged active inducement to infringe the plaintiff's U.S. patent — is Japan and Japanese law is applicable as *lex loci delicti commissi* under Article 11(1) of *Horei*. The U.S. Patent Act

---

27. *Horei*, art. 11.

28. See 35 U.S.C.A. Sec. 284.

29. See *KK Newlon 3* (author's trans.).

is not applicable because it has no extraterritorial effect in Japan.

The Supreme Court's case of July 1, 1997, cited in the above judgment, will be discussed below.

## II. *EXHAUSTION OF A PATENT RIGHT UPON IMPORTATION OF PATENTED PRODUCTS LAWFULLY MANUFACTURED AND SOLD ABROAD*

"Exhaustion of rights" is a doctrine which was adopted by the Japanese courts, first in a patent infringement action, and later in a copyright infringement action. The first statutory recognition of exhaustion is Article 12(3) of the Act concerning the Circuit Layout of Semiconductor Integrated Circuits.<sup>30</sup> More recently, the 1999 amendment of the Copyright Act established Article 26-2 (2) to exempt copyright liability from the resale of lawfully manufactured copies.<sup>31</sup>

Under Article 68 of the Patent Act, the owner of a patent right has an exclusive right to work his patented invention as a

30. Act concerning the Circuit Layout of Semiconductor Integrated Circuits, Law No. 43 of 1985, art. 12(3). Article 12(3) provides:

When an owner of an exploitation right in a circuit layout, or a holder of an exclusive exploitation right or of an ordinary exploitation right, has assigned semiconductor integrated circuits embodying the registered circuit layout [including materials incorporated in the same semiconductor integrated circuits; the same applies in subsequent provision of this paragraph] manufactured by him, the effect of the circuit layout exploitation right shall not extend to the acts of assigning, leasing, displaying for the purpose of assignment or leasing, or importing the semiconductor circuit layouts assigned by him.

*Id.* (author's trans.).

31. Article 26-2 of the Copyright Act, Law No.48 of 1970, was established by the 1999 amendment to implement Article 6(2) of the WIPO Copyright Treaty of 1996. Article 26-2 provides as follows:

(1) The author shall have the exclusive right to make available to the public, by way of assignment, the original or copies (in the case of work of authorship reproduced in a cinematographic work, copies of such cinematographic work shall be excepted) of his work of authorship (other than a cinematographic work).

(2) The preceding paragraph shall be inapplicable to the assignment of the original or copies of a work of authorship which fall under any of the following items: (i) The original or copies of a work of authorship which have been assigned to the public by the owner of the right provided in the preceding paragraph, or by a person who has obtained a license from him; assigned to the public under (ii) to (iv) [omitted].

*Id.* (author's trans.).

business.<sup>32</sup> The term “working” (*jisshi*) of an invention is defined by Article 2(3) of the Act.<sup>33</sup> Under this definition, as amended in 2002,<sup>34</sup> the term “working,” as applied to an invention of a thing, includes “acts of producing, using, assigning, etc. [meaning assignment and leasing, and, when such a thing is a computer program, the term includes providing through electric communication network] or importing, or offering for assignment, etc. [. . .] of such a thing.”<sup>35</sup> As to an invention of a process, “working” includes acts of using such a process and of using, assigning, importing, or offering for assignment, etc., the thing produced by such a process.<sup>36</sup>

In the domestic market, patent owners usually tolerate resale or use of products lawfully manufactured and distributed under their respective patents because of the doctrine of “exhaustion of patents” or “implied license.” The court of first instance in *BBS Kraftfahrzeugtechnik AG v. Racimex Japan KK et al.*<sup>37</sup> held:

Within the country, reselling or using, as a business, of patented products sold by the patent owner or by his licensee, falls under the “working” of an invention defined by Article 2(3)(i) of the Patent Act and implies literal infringement of the patent owner’s exclusive right to work his patented invention, and there is no express provision that such an act does not infringe the patent right. However, it is proper to say that once the patent owner or his licensee sells the products of “working” of the patented invention, the patent has been exhausted with respect to those products, and hence, it is not possible to claim an injunction or damages against the sale or use of such products, alleging infringement of the said patent right.<sup>38</sup>

In an international setting, the first case that applied the doctrine of exhaustion was *Brunswick Corp. v. Orion Kogyo KK*,

32. See Patent Act, Law. No. 121 of 1959, art. 68 [hereinafter Patent Act].

33. *Id.* art. 2(3) (author’s trans.).

34. The 2002 amendment to the Patent Act included “computer programs” in the definition of “working” under Article 2(3)(i). *Id.*

35. *Id.*

36. *Id.*

37. *BBS Kraftfahrzeugtechnik AG v. Racimex Japan KK et al.*, 1501 HANREI JIHO 70 (Tokyo Dist. Ct., July 22, 1994).

38. *Id.* (author’s trans.).

decided by the Osaka District Court in 1969.<sup>39</sup> In this case, the plaintiff Brunswick Corp. (“Brunswick”) owned patents in various countries, including Australia and Japan, for an automatic pin-setting device for bowling machines. Brunswick’s Australian patent was sublicensed by its Venezuelan subsidiary to Blackrock Co. of Australia (“Blackrock”). The defendant, Orion Kogyo KK (“Orion”), imported some used machines, which incorporated the device manufactured by Blackrock, and was using these machines at a bowling alley operated by Orion. Brunswick brought an action for injunction against Orion in the Osaka District Court, alleging infringement of its Japanese patent.<sup>40</sup> Orion alleged that Brunswick’s patent was exhausted upon sale of the products by its sublicense in Australia and, therefore, Brunswick could no longer sue the purchasers of such products on the ground of patent infringement. The Osaka District Court dismissed Orion’s defense and granted an injunction, holding that it was Brunswick’s Australian patent that had been exhausted, and the exhaustion of this Australian patent had no effect on Brunswick’s corresponding Japanese patent. The court held that exhaustion of a patent in one country with respect to a particular product does not necessarily cause exhaustion of the corresponding patents in other countries. Therefore, Brunswick’s Japanese patent was not affected by Blackrock’s “working” of Brunswick’s Australian patent within the territory of Australia.

The Supreme Court decision in *Fujimoto v. Newlon*<sup>41</sup> cites the decision of the Supreme Court, 3rd Petty Bench, rendered on July 22, 1994, in *BBS Kraftfahrzeugtechnik AG v. Racimex Japan KK, et. al.*<sup>42</sup> In this case, the Supreme Court declared patent exhaustion in an international setting.

In applying the exhaustion doctrine, the facts at issue must be carefully analyzed. *BBS Kraftfahrzeugtechnik AG* (“BBS”), a German company, owned a patent for an aluminum wheel for automobiles in Germany and the corresponding patent in Ja-

---

39. *Brunswick Corp. v. Orion Kogyo KK*, 1 MUTAI SAISHU 160 (Osaka Dist. Ct., June 9, 1969).

40. No. 30833.

41. *Akira Fujimoto v. KK Newlon*, reported online (Sup. Ct., 1st Petty Bench, Sept. 26, 2002). See discussion *infra*.

42. *BBS Kraftfahrzeugtechnik AG v. Racimex Japan KK et al.*, 51 MINSHU 299, 1612 HANREI JIHO 3 (Sup. Ct. 3rd Petty Bench, July 1, 1997) [hereinafter *Racimex Japan KK* 3].

pan,<sup>43</sup> obtained on December 2, 1991, upon claiming priority based on its European filing. The defendant Jap Auto Products (“Jap Auto”) had been importing into Japan aluminum wheels manufactured and distributed by BBS in Germany, and the codefendant Racimex Japan KK (“Racimex”) had been selling the aluminum wheels imported by Jap Auto. BBS sued Racimex and Jap Auto for injunction and damages, alleging infringement of BBS’s Japanese patent. The Tokyo District Court, after recognizing patent exhaustion in a domestic setting as discussed above, refused to find international exhaustion and held the defendants liable for infringement of BBS’s Japanese patent.<sup>44</sup> The District Court, noting the practice of parallel licensing of patents in various countries, and carefully balancing the interest of the consuming public in the domestic market and the interest of potential licensees, held that there is no international agreement as to the legality of parallel importation of patented genuine goods. The Tokyo High Court reversed the lower court’s decision and held that the importer and distributor of the BBS products did not infringe BBS’s Japanese patent.<sup>45</sup>

The Supreme Court upheld the lower court’s decision and dismissed BBS’s appeal on the grounds that:

In the light of the facts found by the lower court in the instant case, the products involved in this case were all sold in the Federal Republic of Germany by the appellant, who is the owner of the patent in issue. In the instant case, the appellant does not assert and prove that the appellant, in the sale of the products, made an agreement with the purchaser to exclude Japan from the area of distribution or the territory of use, or that the appellant indicated such restriction on each of the products, and, hence, the appellant is not entitled to claim an injunction and damages based on the patent right for each of the products involved in the instant case.<sup>46</sup>

In dismissing BBS’ claims based on its Japanese patent, the Supreme Court first pointed out that it is not inconsistent with the principle of independence of patents under Article 4 or the territoriality principle to take into consideration any matters that

---

43. No. 1629869.

44. See *supra* n.37 and accompanying text.

45. BBS Kraftfahrzeugtechnik AG v. Racimex Japan KK et al., 1524 HANREI JIHO 3 (Tokyo High Ct., Mar. 23, 1995).

46. See *Racimex Japan KK 3* (author’s trans.).

took place abroad in the discussion of enforceability of a Japanese patent. The Supreme Court then stated the following reasons why the owner of a patent or its licensee cannot enforce the patent right against the patented products once they are lawfully distributed within the country: (i) protection of inventions and public interest must be balanced; (ii) sale of goods is based on the premise that the purchaser of goods acquires everything the seller has in the goods, and free movement of goods will be hampered if the patent owner's license is required every time the patented products are resold; and (iii) the patent owner is compensated for the public disclosure of his invention when he first sells the patented products and he should not be allowed to make a double profit from the patented products once they are sold by him.<sup>47</sup>

In the international setting, the Supreme Court emphasized the need to balance the free movement of goods in the international market and the rights of patent owners. The Court stated that when a patent owner sells patented products overseas, it can be easily expected that a third party may buy such products from the buyer or intermediary seller and operate a business of importing, using, or distributing the products in Japan. The Supreme Court then held:

(1) When the patented products are sold in a foreign country, it is naturally expected that such products will be imported into Japan; and, hence, when the patent owner sells its patented products in a foreign country without any reservation, the patent owner should be presumed to have tacitly granted to the purchaser or subsequent acquirer, a license to control the said products, without subject to the patent right owned by the seller in Japan.

(2) On the other hand, from the standpoint of the right of the patent owner, the patent owner should be permitted to reserve the right to exercise its patent right in Japan when the patent owner sells the patented products in a foreign country. When the patent owner agrees with the purchaser to exclude Japan from the territory of distribution or use and clearly indicates this effect on the products, subsequent acquirers can easily recognize that the products are subject to such restriction even if middlemen intervene in the course of distribu-

---

47. *Id.*



tion, and freely decide whether or not they want to purchase the products with such restriction.

(3) Even if the patented products are sold in a foreign country by a subsidiary or a related company which can be regarded as the patent owner, the products must be regarded as having been sold by the patent owner.

(4) The need to protect the purchaser's reliance on free distribution of the patented products does not differ depending on whether or not the patent owner has a corresponding patent in a country where the patented products are first sold.<sup>48</sup>

In *Brunswick*, the patented products imported by the defendant were manufactured by Brunswick's sub-licensee in Australia for sale and use in Australia. Hence, the Tokyo District Court's decision in favor of Brunswick does not conflict with the Supreme Court's decision in *BBS*; rather, Brunswick's arrangement falls under the exception suggested by the *BBS* decision. It must be noted that, under the *BBS* decision, exhaustion of patent upon importation of patented products manufactured abroad by the same patent owner, is not unconditional or without reservation.

### III. EXTRATERRITORIAL APPLICATION OF CERTAIN PROVISIONS IN THE PATENT ACT OF JAPAN

The primary role of the Patent Act of Japan (the "Patent Act") is to provide substantive requirements for the grant of a patent; the procedure for filing of patent applications; the procedure for their examination; the procedure for the subsequent review of the examiners' decisions; the effect and the scope of patents granted by the patent office; as well as the civil liabilities and the penal sanctions against infringement.

Licensing of patents is essentially a private matter left for the parties to stipulate in the terms and conditions of their contract. However, the Patent Act provides for the registration of exclusive and nonexclusive licenses and for the effect of such registration.<sup>49</sup> Joint ownership of a patent is also a matter to be determined among the parties concerned, but the Patent Act provides the basic rule.<sup>50</sup>

---

48. *Id.*

49. *See* Patent Act, art. 77-78.

50. *Id.* art. 73.

Under the Patent Act, an inventor must be a natural person, but the Act permits the filing of a patent application by a person who has acquired the right to obtain a patent (*tokkyo o ukeru kenri*) from the inventor. Article 33(1) of the Patent Act provides that "the right to obtain a patent shall be transferable."<sup>51</sup> This is the Act's recognition of the basic rule that an invention is assignable without territorial restriction so that an assignee, as the owner of the invention, may select countries where he wants to secure patent protection. Article 33(1) deals with situations in which an assignee/owner of an invention wants to file a patent application in Japan.<sup>52</sup> In practice, a large number of patent applications are filed with the Patent Office by the assignees of inventions created in Japan or elsewhere. The relationship between an inventor and an assignee/owner of his invention is left up to contractual arrangement between the parties. It is beyond the scope of the Patent Act to regulate.

An overwhelmingly large number of patent applications are filed with the Patent Office by the employers of inventors who are often asked to transfer the ownership of inventions in advance of their creation. The Patent Act Article 35 ("Service Inventions") provides the basic rules for inventions created by employees.<sup>53</sup>

51. *Id.* art. 33(1) (author's trans.).

52. *Id.*

53. *See* Patent Act, art. 35. Article 35 provides:

(1) An employer, a juridical person, the State, or a local public entity (hereinafter referred to as the "employer") is, when an employee, officer of the juridical person, a national public employee, or a local public employee (hereinafter referred to as the "employee"), has obtained a patent for an invention which, in its nature, falls under the scope of the business of the employer and is derived from acts done by the employee as his present or past duties to the employer (hereinafter referred to as the "service invention"), or when the person who has succeeded to the right to obtain a patent for the service invention has obtained a patent for it, entitled to an ordinary working right on such patent.

(2) As for an invention created by an employee, except where it is a service invention, a clause in a contract, work regulation, or other kind of instrument, which provides in advance that the employer shall succeed to the right to obtain a patent, or the patent right for it is an exclusive working right, the patent granted to the employer shall be invalid.

(3) An employee shall have the right to receive a reasonable consideration when he permits his employer to succeed to the right to obtain a patent, or to the patent right for his service invention; or establishes an exclusive working right for it by a contract, work regulations, or other kind of instrument.

(4) The amount of consideration referred to in the preceding paragraph

Application of these suppletive law provisions in the Patent Act is not necessarily confined to the territorial boundary of the enacting State. There is only one reported case that shows the possibility of extraterritorial application of the service invention provision of Article 35 mentioned above.

In *Akira Fujimoto v. KK Newlon*,<sup>54</sup> the appellant Fujimoto (defendant below), in June 1983, then under employment as the chief of the engineering department of SRD KK ("SRD"), filed a patent application with the U.S. Patent Office for an invention entitled "FM Signal Demodulating Apparatus" that was completed in early 1983 at his department, and obtained a U.S. patent in his own name on September 10, 1985. SRD filed patent applications for the same invention in Japan on July 1, 1983, in the United Kingdom on June 24, 1985, and in West Germany on July 26, 1983. Fujimoto did not object. SRD, saying that Fujimoto agreed to assign his U.S. patent to SRD, assigned its business, including the U.S. patent, to Hitachi Kasei KK, and the latter assigned the business to its wholly-owned subsidiary, Newlon KK. Newlon then filed a suit against Fujimoto to obtain confirmation that Fujimoto was under an obligation to transfer his U.S. patent to Newlon alleging that, in 1983, there was a tacit agreement between SRD and its employees to assign rights to obtain patents to the company, once the employees' inventions were completed. The Tokyo District Court held for the plaintiff Newlon and the defendant Fujimoto appealed.

On appeal, the Tokyo High Court first discussed the legislative intent of balancing the interests of the employer and employee in a service invention made by the latter under Article 35(1) and (3) of the Patent Act, and carefully examined the assertions of both parties. The court found that there was no tacit agreement between Fujimoto and his employer to assign the U.S. patent that Fujimoto obtained and continued to pay renewal fees on every four years. The High Court noted that Article 35(1) provides the employer with a shop right in a patent acquired by the employee for his service invention, while paragraph (3) provides the employee with a right to receive reasona-

---

shall be determined considering the amount of profit which the employer may obtain on account of the invention and the degree of contribution made by the employer in the creation of the invention.

*Id.* (author's trans.).

54. TOKYO TO KICYO 42 (Nov. 1994), (Tokyo High Ct, July 20, 1994).

ble compensation when the right to obtain a patent or the patent right in his service invention is assigned to the employer, and applied these rules to the conduct of Fujimoto and SRD. Since the employer's successor, Newlon, failed to prove a tacit agreement between Fujimoto and SRD to assign Fujimoto's U.S. patent to the latter, the High Court reversed the lower court's judgment and dismissed Newlon's claim of title to the U.S. patent.

This case involves foreign elements, which require the determination of the law governing the plaintiff's claim. Neither the lower court nor the appellate court discussed conflict of laws issues in applying the employee invention provisions of the Japanese patent law to the U.S. patent in question. The issue in this case was the title to a patent granted by a foreign country, i.e., the title to a movable property located in a foreign country. Which of the two parties owns this property is a matter of contract between them. Hence, the court must first determine the governing law of contract between Fujimoto and his former employer, SRD, under Article 7 of *Horei*, which provides the principle of party autonomy as follows:

- (1) With respect to the creation and effects of a juristic act, the governing law shall be determined in accordance with the intention of the parties.
- (2) If the intention of the parties is not clear, the law of the place where the action took place shall govern.<sup>55</sup>

In the instant case, there was no written agreement between the parties as to the governing law of contract, but it is an established practice, under Article 7(1), to find a tacit intention of the parties as to the governing law, considering the relevant facts such as the parties' nationalities, the place of employment, the place of invention, etc. In this case, it can be easily found that the parties tacitly intended to apply Japanese law under Article 7(1) rather than paragraph (2). Even under paragraph (2), Japanese law governs as *lex loci actus*.<sup>56</sup>

After winning in this case, Fujimoto, as the owner of the U.S. patent, sued Newlon who owned a Japanese patent for the same invention, brought an infringement action under Section 271(b) of the U.S. Patent Act against Newlon's manufacture and exporting of the patented products to its U.S. subsidiary as active

---

55. See *Horei*, art. 7 (author's trans.).

56. *Id.*

inducement to infringe the U.S. patent. In the second round of *Fujimoto v. Newlon*, the Supreme Court strictly applied the territoriality principle to Fujimoto's attempt to enforce its U.S. patent against Newlon as discussed in the first part of this Essay.

### CONCLUSION

The cases taken up for analysis in this Essay all involved foreign elements and are good for classroom discussion of private international law. There is no question that the Japanese courts had jurisdiction over these cases and the courts did not discuss this issue. Because of the territoriality principle in the protection of intellectual property in general, there are not very many cases involving conflict of laws issues.

The first case taken up here, *Nihon Wireless Communication KK v. Matsushita Electric Industry KK*, involved alleged infringement of a patent granted in Manchuko, which was taken over by China in 1945. The action was brought in the Japanese court under such unusual circumstances.

The second case, *Fujimoto v. Newlon*, is the second round of litigation between the same parties involving the same U.S. patent. The Tokyo High Court's decision in *Fujimoto v. Newlon* discussed last was the first round of this controversy. Fujimoto was an employed inventor. He invented an FM Signal Demodulating Apparatus. Fujimoto's employer took a Japanese patent and Fujimoto took a U.S. patent for the invention. If Fujimoto's employment contract with his employer had been properly drafted, these valuable cases would not have come about.

The Supreme Court decision in the *BBS Kraftfahrzeugtechnik* case is often referred to by commentators as the court's recognition of international exhaustion. It can be more correctly defined as the Japanese court's recognition of the exhaustion of a foreign patent and of the denial of enforcement of a corresponding Japanese patent due to that exhaustion. Territoriality of patent protection remains intact.