An IP High Court Grand Panel Decision on Cross-Border Patent Infringement

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Abstract

On May 26, 2023, the IP High Court Grand Panel handed down a decision on an appeal of a cross-border patent infringement lawsuit. The appellant of this case, who holds a patent for a video streaming system, claimed patent infringement against the appellees, who provided video streaming services from a server in the United States to users in Japan. The Court held that, even if a server of a network system is outside of Japan, the act of producing a patented network system by transmitting programs and data from the server in the United States to the user terminal in Japan can be considered as performed in Japan, and therefore the act constitutes "producing" under the Patent Act in light of the territorial principle, and affirmed patent infringement by the appellees.

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I. Background and overview

Dwango Co., Ltd., a Japanese company providing video streaming services (hereinafter, "Appellant"), is a patentee of Japanese Patent No. 6,526,304 (hereinafter, "Patent"). The Patent relates to a video streaming system including a server distributing videos and comments, and user terminals displaying the video and the comments overlapping the video. FC2, Inc., a United States company, and Homepage System Inc., a Japanese company (hereinafter, collectively "Appellees") had jointly provided video streaming services distributing videos and comments from a server in the United States to user terminals in Japan.

In 2019, Appellant filed a lawsuit against Appellees at the Tokyo District Court seeking an injunction against the Appellees' services and compensation for damages on the grounds that the Appellees' services infringed on their Patent. In 2022, the Court dismissed all of the Appellant's claims, because while the Appellees services fell within

the technical scopes of inventions of the Patent, Appellees did not produce the patented system in Japan and thus their acts did not infringe the Patent in connection with the territorial principle. In the same year, Appellant appealed to the IP High Court.

II. Issue and Decision

Although there are many issues in this case, this article focuses on an issue which was decided differently between the District Court and the IP High Court, as to whether the Appellees' acts constitute "producing" under Article 2, paragraph (3), item (i) of the Patent Act[1].

1. Patent (No. 6,526,304)

Appellant claimed that the Appellees' act fell within the technical scope of inventions of claims 1 and 2 of the Patent (hereinafter, respectively "Invention A" and "Invention B", and collectively "Inventions"). Claim 1 is as follows:

> 1. A comment distribution system including a server and terminal devices connected to the server via a network, the server receiving a first and second comments given by a user watching a video transmitted from the server, and transmitting the video and comment information to the terminal devices, the comment information including the first and second comments and comment addition time indicating a playback time of the video corresponding to time points at which the first and second comments are given, the comment distribution system comprising:
>
> a display means displaying, based on the video and the comment information, the video and the first and second comments on display devices of the terminal devices, the first and second comments being displayed at a playback time corresponding to the comment addition time in such a way as to overlap the video and to move in a horizontal direction;
>
> a determination unit determining, when the second comment is displayed on the video, whether a display position of the second comment overlaps a display position of the first comment; and
>
> a display position control unit adjusting, when the display position of the second

[1] Article 2, paragraph (3), item (i) of the Patent Act provides that the term "working" of an invention as used in this Act means the act of producing or using the invention, transferring or leasing the invention (this includes providing the invention through a telecommunications line, if it is a computer program or something equivalent), exporting or importing the invention, or offering to transfer or lease the invention if it is a product (including a computer program or something equivalent).

comment is determined to overlap the display position of the first comment, the display positions of the first and second comments so that the first and second comments do not overlap each other; wherein

the video and the first and second comments are displayed on the display devices of the terminal devices by the server transmitting the video and the comment information to the terminal devices, the first and second comments being displayed in such a way as to overlap the video, to move in the horizontal direction, and not to overlap each other.

(Translated by the author)

Invention A is characterized in the following configurations. First, the server receives comments given by a user watching a video and transmits comment information to the terminal devices. The comment information includes a playback time of the video at which the comments were given by the user. Second, the terminal devices receive the video and the comment information from the server and display the comments overlapping the video. The comments are displayed at a time point corresponding to the playback time indicated by the comment information. Third, the system adjusts the display position of the comments so that the comments do not overlap each other. According to these configurations, Invention A improves entertainment of communications through the comments between users watching the same video.

Invention B is an invention of a comment distribution system including a video streaming server transmitting the video and a comment distribution server transmitting the comment information instead of "the server" of Invention A. Invention B has similar configurations and effect as that of Invention A.

2. Appellees' services

Appellees provided video distribution services of a Flash version and an HTML5 version, which are compatible with different web browsers. A process of displaying a commented video on user terminals in the Flash version is as follows:

i) A user installs Adobe Flash Player (an application operating on a browser) on a user terminal in advance.
ii) The user designates a webpage of the video streaming service to watch a video.
iii) In response to ii), the Appellees' web server transmits an HTML file (display data for the browser) and an SWF file (program for Flash) to the user terminal.
iv) The user terminal receives the HTML and SWF files and stores them in a cache. The browser and Flash load those files respectively.

v) The user operates the user terminal and selects a playback button of the video displayed on the browser.

vi) In response to v), Flash instructs the browser to retrieve a video file and a comment file in accordance with instructions stored in the SWF file. The browser transmits a request for the video file to the video streaming server and a request for the comment file to the comment distribution server of the Appellees.

vii) In response to vi), the video streaming server in the U.S. transmits the video file, and the comment distribution server in the U.S. transmits the comment file to the user terminal.

viii) The user terminal receives the video file and comment file and displays a comment overlapping the video based on the received files. At this time, a determination on whether the comments overlap each other, and designation of a comment display position is performed in accordance with instructions stored in the SWF file.

A process in the HTML version is similar to the one in the Flash version, except that installation of Flash is not required, and a Javascript file is used instead of the SWF file.

3. Decision of the Court

The Court found that when the user terminal receives the video file and comment file at viii) of the above process, a new system falling within the technical scope of the Inventions (hereinafter "System") is newly produced. In other words, the System is produced by the Appellees' web server transmitting the HTML and SWF files at iii), the user terminal receiving them at iv), the Appellees' video streaming server and comment distribution server transmitting the video and comment files at vii), and the user terminal receiving them at viii). Then, in light of the principle of territoriality, the Court held as follows as to whether the production of the System constitutes "producing" under Article 2, paragraph (3), item (i) of the Patent Act.

In a network system consisting of a server and a terminal, it is common for the server to be located outside of Japan. In addition, the country in which the server is located is not an issue in the use of the networked system. Even if the server of the network system infringing on a patent is located outside of Japan, the system is available in Japan when the terminal is located therein, and such use of the system may affect the economic interest that the patentee can obtain by working the patented invention in Japan. Thus, with respect to the network system inventions, it is not reasonable to strictly interpret the principle of territoriality and to uniformly conclude that the working of the

system does not constitute "working" under Article 2, paragraph (3), item (i) of the Patent Act merely because the server is located outside of Japan, since it would be easy to be immune to liability for patent infringement and the patent right for the invention of the system could not be sufficiently protected.
On the other hand, it is also not reasonable to uniformly conclude that the working of the system constitutes "working" of the Patent Act merely because the terminal is located in Japan, since this would give excessive protection of the patent right and eventually cause a hindrance to economic activities.
In light of the above, from the viewpoint of appropriate protection of patent rights for the inventions of network systems, it is reasonable to conclude that even if a server of the system is located outside of Japan, the act of producing a new network system constitutes "producing" under Article 2, paragraph (3), item (i) of the Patent Act when the act can be considered as performed in Japan by considering *(a) the specific manner of the act, (b) the function or role played by those located in Japan among the elements of the system, (c) the place where the effect of the invention is achieved by the use of the system, and (d) the effect of the use on the economic interest of the patentee.*

(Translated, italics and (a)-(d) added by the author)

The Court then concluded that the act of producing the Appellees' system constitutes "producing" under Article 2, paragraph (3), item (i) of the Patent Act in connection with the Inventions because, considering (a) that, in view of the fact that the transmission and reception of each file is performed as one and the Appellees' system is completed without any separate operation by the user, the transmission and reception can be considered as performed in Japan, (b) that the user terminal in Japan fulfills the function that the comments do not overlap each other, which is necessary for the main purpose of the Inventions, (c) that the effect of the Inventions of improving the entertainment of communication through the comments is achieved in Japan, and (d) that the use of Appellees' system may affect the economic interest obtained by the Appellant from the working of the Inventions, the act of producing Appellees' system is considered as performed in Japan.

III. Comments

In another case between the same parties decided by the IP High Court prior to this judgment (No. (ne) 10077 of 2008), the Court concluded that the act transmitting a program from a server in the U.S. to a user terminal in Japan constitutes "providing" under Article 2, paragraph (3), item (i) of the Patent Act, holding that "the act of transmitting a program constitutes "providing" under the Patent Act if the act can be

evaluated as performed in Japan from an overall and substantial viewpoint". Following the above prior decision, this decision also shows a strict attitude toward the act of avoiding liability for infringement of a patent of a network system by locating the server outside of Japan.

Conventionally, there has been a view that a patent of an invention of a network system including a server and a terminal device should be obtained as a patent for the terminal device, rather than for the network system, since liability for patent infringement can be avoided easily by moving the server out of Japan. However, depending on characteristics of the invention, it may be difficult to obtain a patent for the terminal device, since the terminal device is a so-called sub-combination[2] and the terminal device itself lacks inventive step. The series of decisions made regarding cross-border patent infringement has made it easier to protect such inventions by obtaining a patent for the network system.

However, patents for network systems still have problems, such as difficulty in enforcing rights when an alleged infringer has a third party manage the server, or difficulty in proving infringement when a claim includes internal processing of the server. On the other hand, since the invention of a system is a type of invention of a product, this decision will likely apply to the production of a terminal device. Therefore, as in the past, it would appear to be desirable to aim to obtain a patent for the terminal device in principle, but if it is difficult, to obtain a patent for the system.

Incidentally, this case is the first case in which a third-party comment solicitation system (Article 105-2-11 of the Patent Act), which was introduced by the 2021 Amendment of the Patent Act, was used. Some of the comments submitted in the procedure were used by the Appellant and Appellees to make supplemental arguments in this appeal trial.

END

[2] The Examination Guidelines provide that if a claim includes an element relevant to another sub-combination of the claimed invention and the element does not specify a structure, function, etc. of the claimed sub-combination invention, the element relevant to another sub-combination does not contribute to novelty and inventive step (Part III, Chapter 2, Section 4 of Examination Guidelines for Patent and Utility Model in Japan).