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Patents: – The Principle of Territoriality: Two Notable Judgments of the Supreme Court of Japan rendered on March 3, 2025

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I. NEW JUDGMENTS – Principle of Territoriality and Infringement of Japanese Patent Rights regarding "Network-Related Inventions"

1. Summary

The Supreme Court of Japan rendered two unprecedented judgments on March 3, 2025, addressing the application of the principle of territoriality of patents to cross-border activities. In short, the Supreme Court ruled for the first time in its history that cross-border activities, including the use of servers located outside Japan, can constitute the "implementation" of a patented invention and therefore an infringement of a Japanese patent right.

In this newsletter, we explain these judgments and provide our summary commentary on them.

2. Background

The "principle of territoriality of patents" is a fundamental concept under Japanese patent law, even though there is no provision in the *Patent Act* of Japan expressly addressing it. Under Japanese patent law, the principle provides that a patent right is effective only within the territory of the country of the government which granted the patent (e.g., a patent right granted by the Government of Japan is only effective within the territory of Japan).

However, the rapid and expansive development of information and network technology in recent times has enabled all manner of tangible and intangible objects to instantaneously connect beyond the physical borders of nations. In this context, the application of the principle of territoriality of patents to cross-border activities has become extremely troublesome for holders of Japanese patents and their legal counsel trying to protect their patents.

If the principle of territoriality is rigidly applied, a Japanese patent right can only be infringed when all of the constituent elements of the patented invention are present within the territory of Japan. This results in easy circumvention of infringement of Japanese patent rights simply by using servers located outside Japan, especially in the case of IT-network-related inventions.

The two judgments rendered by the Supreme Court on March 3, 2025, were for two cases between the same parties. For ease of understanding, the first case is hereinafter referred to as "**Dwango I**" and the second case is hereinafter referred to as "**Dwango II**".

II. Dwango I

1. Outline of Case

The plaintiff, Dwango Co., Ltd. ("**Dwango**"), a Japanese corporation, owned Japanese Patent No. 4734471 ("**'471 Patent**") pertaining to the invention of a computer program (the "**Program Invention**") and that of a display device

(the "**Display Device Invention**").[1] The defendant, FC2, Inc. ("**FC2**"), a U.S. company, operated a business which provided three types of online video-streaming-with-comments services (the "**Services**") jointly with another defendant, Homepage System, Inc. ("**HPS**"), a Japanese corporation.

Dwango essentially made two main claims in this case. First, Dwango claimed that:

- specified programs of the defendants (the "**Programs**") fell within the technical scope of Program Inventions; and

- the act of transmitting the Programs from servers located in the USA to user terminals in Japan (the "**Distribution**"), performed by FC2 and HPS, constituted an act of "providing through a telecommunication line" (Article 2(3)(i) of the *Patent Act*) with respect to the Programs.

Second, Dwango further claimed that:

- the user terminals on which the Programs were installed in Japan fell within the scope of Display Device Inventions; and

- the above transmission (i.e., the Distribution) also constituted "transferring, etc." (Article 101(i) of the *Patent Act*) of a product or item used only for the purpose of the said terminals implementing the Display Device Inventions, and that this act of "transferring, etc." constituted an infringement of '471 Patent.[2]

Based on these claims, in 2016, Dwango commenced litigation against FC2 and HPS in the Tokyo District Court seeking an injunction to prevent the Distribution of the Programs and an award for compensatory damages.

2. Structure and Functions of the Services

The Services enabled users to add comments while watching videos, and when a user played a video, comments added by other users are displayed moving from right to left on the video being played, synchronized with the timing of when the comments were added.[3]

<Figure: Structure of the Services>

(i) To play a desired video, the user accesses the Services webpage via his/her browser on his/her terminal. (a) The HTML file for the webpage and (b) the SWF or JS file containing instructions for the browser to request and obtain information regarding the video file and comments (refer to (ii) below) are distributed into the browser cache of the user.

(ii) The browser requests the video file from the Video-Streaming Server and the comment files from the Comment-Streaming Server according to the instructions in the file downloaded in (i) above for the desired video.

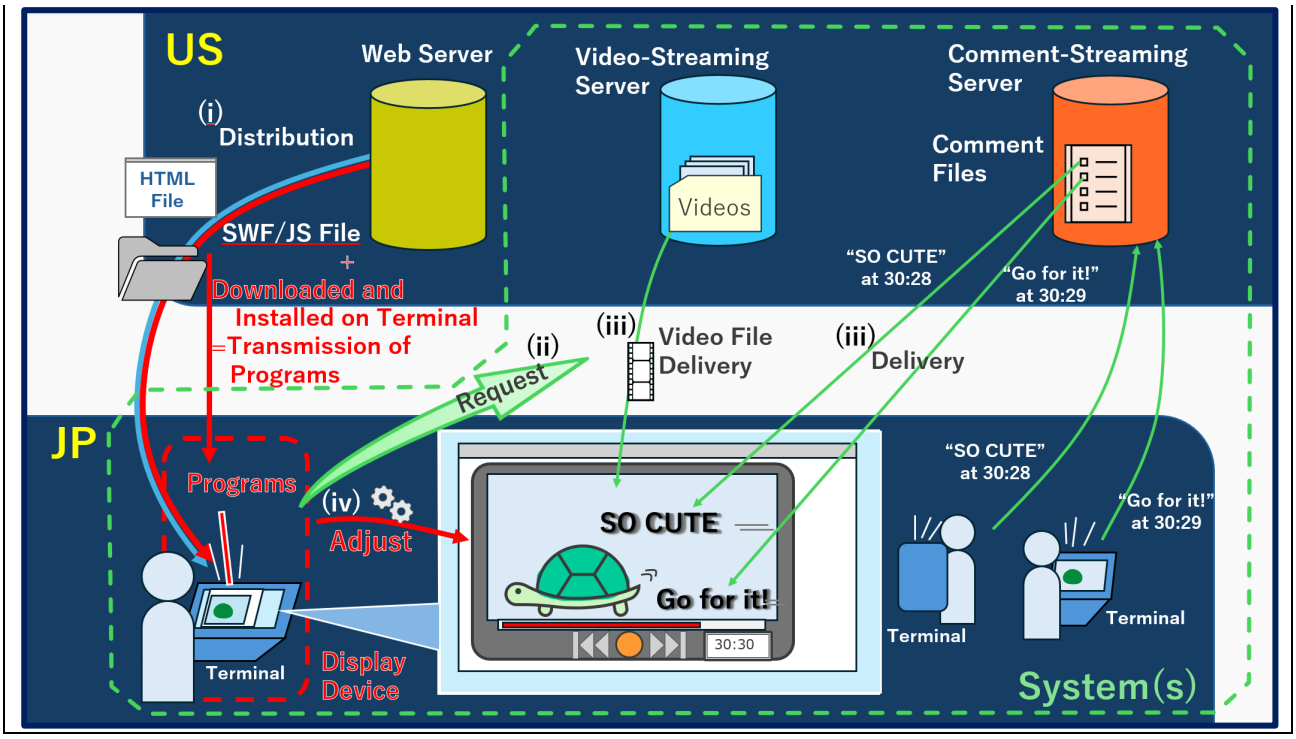
(iii) The video file and the comment files are respectively delivered to the terminals.

(iv) The video with the comments is displayed on the browser. At this time, the display range of the video and the comments are adjusted by the program downloaded in (i) above.

[1] '471 Patent is titled "display device, method of displaying comments, and programs." The Program Inventions are claimed in claims 9 and 10 of '471 Patent, and the Display Device Inventions in claims 1, 2, 5 and 6 of '471 Patent. Dwango also alleged the infringement of Japanese Patent No. 4695583, titled "display device, method of displaying comments, and programs" owned by Dwango. However, this patent and the issues related to it are not discussed in this newsletter as they are not the subject of the Dwango I Supreme Court judgment.

[2] Under Article 101(i) of the *Patent Act*, where the patent has been granted for a product invention, an act is deemed to constitute an infringement of the patent if the act is an act of producing, **transferring, etc.**, importing or offering to transfer, etc., in the course of trade, any item or material whose only use is to produce that patented product.

[3] Some aspects of the structure of the Services differ depending on the version or type of computer program used as well as on variations in the Services themselves, but such differences do not affect the decision and conclusions reached by the Supreme Court.



The Programs function so that videos are played with comments in accordance with the files distributed, downloaded and installed in (i) in the above figure.

The key issues in Dwango I were:

(a) did distribution of the Programs from the Web Server located in the USA to terminals in Japan performed by FC2 and HPS constitute an act of "providing through a telecommunication line" (Article 2(3)(i) of the *Patent Act*); and

(b) did such distribution constitute an act of "transferring, etc." (Article 101(i) of the *Patent Act*)?

On September 19, 2018, the Tokyo District Court dismissed both claims of Dwango holding that the Programs did not fall within the scope of the Program Inventions.

Dwango next appealed to the Intellectual Property High Court of Japan (the "**IPHC**"). On July 20, 2022, the IPHC allowed a part of the claims of Dwango finding that the defendants had infringed the '471 Patent.[4] In response, FC2 and HPS filed petitions to the Supreme Court for final appeal challenging the ruling of the IPHC.

3. Supreme Court Judgment (Dwango I)

On March 3, 2025, the Supreme Court dismissed the final appeal made by FC2 and HPS, which resulted in the judgment of the IPHC being affirmed as the correct and final binding decision (the "**Supreme Court Dwango I Judgment**").

(1) Basic Approach

The Supreme Court, referring to the principle of territoriality, stated that a Japanese patent right is effective only within the territory of Japan. However, the Supreme Court went further and acknowledged that:

> *"… in the modern age, the distribution of information across national borders via telecommunications lines has become extremely easy. If a program, etc. is transmitted from outside the territory of Japan via a telecommunications line and provided within the territory of Japan but the effect of a Japanese patent*

[4] For further details, please refer to NO&T IP Law Update No.1, "Judgment rendered by the Grand Panel of the Intellectual Property High Court on May 26, 2023, regarding the Principle of Territoriality" (June, 2023).

right does not always cover this merely because it is transmitted from outside the territory of Japan, it does not accord with the purpose of the Patent Act, which is to contribute to the development of industry through the protection and encouragement of inventions, by, among others, allowing patent holders to have the exclusive right to implement patented inventions in the course of business."

After making such acknowledgment, the Supreme Court concluded:

"even in such cases [added by authors: i.e., in which a program, etc. is transmitted from outside the territory of Japan], there is no reason to prevent the interpretation that the effect of the Japanese patent right covers such act of transmitting when such act is, as a whole, evaluated as substantially constituting 'provision via telecommunications lines' within the territory of Japan."

(2) Application of above Approach to the Distribution

The Supreme Court acknowledged that, while part of the Distribution (of the Programs) had the appearance of occurring outside the territory of Japan, when viewed as a whole:

- the Distribution was automatically executed when users who use terminals located in Japan accessed the Service webpage to receive the Services; and

- by using the Programs transmitted by the Distribution and installed in terminals, the Services allow users to watch videos in which the display range of the video and the display range of the comments have been adjusted, on terminals located in Japan.

Based on the above, the Supreme Court specified the following points,[5] and concluded that FC2 and HPS had transmitted the Programs via telecommunications lines substantially within the territory of Japan through the Distribution, and that therefore the Distribution fell under "providing [services] through a telecommunication line" (Article 2(3)(i) of the *Patent Act*):

(A) The Distribution is performed as a part of the information processing activities when providing the Services in Japan.

(B) (i) The Distribution ensures that the effect of the Program Inventions is obtained at terminals located in Japan, and
(ii) in relation to obtaining the effect, the fact that the location of the server is outside the territory of Japan has no particular significance.

(C) It cannot be said that the Distribution had no economic impact on Dwango as the owner of '471 Patent.

In addition, the Supreme Court noted that the Distribution automatically created the effects of the Display Device Inventions at terminals located in Japan, and that the circumstances relating to the location of the server and economic impact were the same as (B)(ii) and (C) above. Given this, the Supreme Court concluded that the Distribution also fell under an act of "transferring, etc." (Article 101(i) of the *Patent Act*).

III. Dwango II

1. Outline of Case

The plaintiff, Dwango, owned Japanese Patent No. 6526304 ("**'304 Patent**") pertaining to system inventions (the "**System Inventions**").[6] Dwango alleged that the systems (i.e., the network of servers and terminals, etc., which are the "**Systems**" described in the above <Figure: Structure of the Services>) used in providing the Services fell within the scope of the System Inventions and that the acts of one of the defendants, FC2, of transmitting files for the Services (the "**Files**") from servers located in the USA to user terminals in Japan constituted an act of

[5] The below points (A) to (C) have been listed in this newsletter article for ease of understanding. The Supreme Court judgment itself, however, does not present them in such an ordered and concise manner and different interpretations are possible.
[6] '304 Patent is titled "comment delivery system". The System Inventions are claimed in claims 1 and 2 of '304 Patent.

"producing" under Article 2(3)(i) of the *Patent Act* with respect to the Systems.[7]

Based on these allegations, in 2019, Dwango commenced litigation against FC2 and HPS in the Tokyo District Court, seeking an injunction to prevent the transmission of the Files, as well as an award for compensatory damages.

The key issue in Dwango II was

- did the transmissions of the HTML file and the files containing the Programs (such as JS files, etc.) from servers located in the United States to user terminals in Japan conducted by FC2 (the "**Transmissions**") fell under the act of "producing" a system falling within the scope of the System Inventions, and thus constituted an infringement of '304 Patent?

On March 24, 2022, the Tokyo District Court dismissed the claim of Dwango, holding that the act of producing a patented product under the *Patent Act* occurs only when a product that meets all of the constituent elements of the patented invention is newly produced in Japan, and such had not occurred in this case.

Dwango next appealed to the IPHC and on May 26, 2023, the Grand Panel of the IPHC, partially accepting the claim of Dwango, found that FC2 had infringed '304 Patent.[8] FC2 subsequently filed petitions to the Supreme Court for final appeal challenging the ruling of the IPHC.

2. Supreme Court Judgment (Dwango II)

On March 3, 2025, the Supreme Court dismissed the final appeal made by FC2, which resulted in the judgment of the IPHC being affirmed as the final and binding decision (the "**Supreme Court Dwango II Judgment**").

(1) Basic Approach

As with the Supreme Court Dwango I Judgment, in Dwango II, referring to the principle of territoriality, the Supreme Court stated that a Japanese patent right is effective only within the territory of Japan. However, the Supreme Court went further and acknowledged that:

> *"… in the modern age, the distribution of information across national borders via telecommunications lines has become extremely easy. If a system containing server(s) and terminal(s) is built partly outside the territory of Japan via a telecommunications line or such server(s) are located outside the territory of Japan but the effect of a Japanese patent right does not always cover this and thus an act of building such system does not fall under 'producing' under Article 2(3)(i) of the Patent Act merely because it is partly built or set up outside the territory of Japan, it does not accord with the purpose of the Patent Act, which is to contribute to the development of industry through the protection and encouragement of inventions, by, among others, allowing patent holders to have the exclusive right to implement patented inventions in the course of business."*

After making such acknowledgment, the Supreme Court concluded:

> *"even in such cases [added by authors: i.e., where a system containing server(s) and terminal(s) is built partly outside the territory of Japan via a telecommunications line or such server(s) are located outside the territory of Japan], there is no reason to prevent the interpretation that the effect of the Japanese patent right covers such act of building when such act or the system built as a whole is evaluated as substantially constituting 'producing' within the territory of Japan."*

(2) Application of above Approach to act of producing Systems by the Transmission

The Supreme Court acknowledged that, while a part of the act of making the Systems had the appearance of occurring outside the territory of Japan because the Transmissions (of HTML files and JS files, etc.) were an act of transmitting files from the Web Server which was set up outside the territory of Japan and parts of the Systems

[7] Dwango also alleged that the defendant HPS jointly performed the aforementioned acts of transmission with FC2, but such allegation was dismissed early and not at issue at the Supreme Court level in Dwango II.
[8] For further details, please refer to NO&T IP Law Update No.1, "Judgment rendered by the Grand Panel of the Intellectual Property High Court on May 26, 2023, regarding the Principle of Territoriality" (June, 2023).

made by the Transmissions, such as the Comments-Streaming Server, were located outside the territory of Japan, but, when viewed as a whole:

- the making of the Systems by the Transmissions automatically occurs when users who use terminals located in Japan access the Services webpage to receive the Services; and

- thus, in the Systems, the comments are adjusted not to overlap each other, and the results of this processing is displayed on terminals located in Japan.

Based on the above, the Supreme Court specified the following points,[9] and concluded that FC2 made the Systems via telecommunications lines substantially within the territory of Japan through the Transmissions, and that the Transmissions fell under "producing" under Article 2(3)(i) of the *Patent Act*:

(A) Making the Systems by the Transmissions is performed as part of the information processing when providing the Services in Japan.

(B) (i) The Transmissions make the Systems containing terminals located in Japan and ensures that the effect of the System Inventions is obtained at terminals located in Japan, and
(ii) in relation to obtaining the effect of the System, the fact that the location of servers is outside the territory of Japan has no particular significance.

(C) It cannot be said that the Transmissions and the Systems made as a result thereof have no economic impact on Dwango as the owner of '304 Patent.

IV. Future Prospects and Practical Points After the Supreme Court Judgments

Regarding the Supreme Court Dwango I Judgment and the Supreme Court Dwango II Judgment (collectively, the "**Supreme Court Judgments**"), the following three points may be considered the most noteworthy:

- The Supreme Court Judgments indicate that it may be possible to more flexibly evaluate the infringement of a Japanese patent in cases where one or some of the elements of the network-related invention are made outside the territory of Japan even under the principle of territoriality.

- The Supreme Court Judgments only deal with the specific case of what constitutes the "implementation" of a Japanese patented invention when a part of the acts at issue occurs outside the territory of Japan. Therefore, the scope of the Supreme Court Judgments as precedents can be conservatively assessed being limited to such specific cases.

- Discussions in Japan on the implementation of network-related inventions across borders have continued for several years and, since November 2024, the Patent System Subcommittee (a subcommittee formed under the Intellectual Property Committee which is itself formed under the Industrial Structure Council of the Ministry of Economy, Trade and Industry of Japan) has been engaged in discussions including whether or not to introduce new legislation targeting "network-related inventions" in this regard. The Supreme Court Judgments can be expected to have an impact on such legislative discussions.

[9] The below points (A) to (C) have been listed in this newsletter article for ease of understanding. The Supreme Court judgment itself, however, does not present them in such an ordered and concise manner and different interpretations are possible.

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