

Various Issues Concerning IP Litigation from the Perspective of the Legal System (*)

The Japanese IP litigation system has been highly regarded by many legal practitioners in terms of efficiency, predictability, cost-effectiveness, etc. However, some experts and practitioners have highlighted the difficulties in the evidence collection procedure and the insufficient amounts of damages determined in IP litigation, which have prevented right holders from receiving sufficient remedies.

Recently, with the increasing awareness of the importance of the IP litigation system, "Enhancement of the IP dispute resolution system" was listed as one of the three major goals in the "Intellectual Property Strategic Program 2015." Further discussions are scheduled to be held in this fiscal year regarding the following points in particular: [i] measures to facilitate collection of evidence in IP litigation, [ii] measures to allow the amount of damages to reflect the reality of business, and [iii] measures to enhance the stability of IP rights all the way from the grant of IP rights to dispute resolution.

In this research, we examined various issues concerning IP litigation from the perspective of the legal system in order to improve the usability of the IP litigation system and to promote smooth corporate activities. We also examined what measures should be taken to make the Japanese system more attractive than other countries' systems from the viewpoint of IP right holders who need to enforce their rights or resolve disputes.

I Introduction

1 Background and Purpose of This Research

The Japanese IP litigation system has been steadily improving thanks in part to the following amendments to the Patent Act, etc.: the establishment of a provision concerning presumption of the amount of damage (Article 102 of the Patent Act) in 1998, a provision concerning expansion of the scope of documents that will be subject to a court order for submission (Article 105 of said Act), a provision concerning the calculation expert witness system (Article 105-2 of said Act), and a provision concerning facilitation of determination of reasonable damages when it is extremely difficult to prove the calculation basis for the damages (Article 105-3 of said Act) in 1999, a provision concerning a protective order (Article 105-4 of said Act) and a provision concerning a patent invalidity defense (Article 104-3 of said Act). In the same year, Japan established the Intellectual Property High Court, centralized jurisdiction over IP-related cases, and introduced the expert committee system and judicial research official system. Nowadays, the Japanese IP litigation system is highly regarded by many legal practitioners in terms of efficiency, predictability, cost-effectiveness, etc.

On the other hand, some experts and practitioners highlighted the difficulties in the evidence collection procedure and the insufficient amounts of damages determined in IP litigation, which have prevented right holders from receiving sufficient remedies. In recent years,

the JPO carried out a JPO-commissioned research project concerning enhancement of stability of IP rights. In that research, the JPO collected system users' opinions and studied the current state of lawsuits in other countries concerning standard-essential patents and activities of Non-Practicing Entities (NPE), which attempt to exercise intellectual property rights, in order to establish the appropriate way of exercising the right to seek an injunction. Regarding IP dispute resolution, the JPO conducted an analysis on IP-related judicial precedents and in-court settlements. However, research has not been conducted sufficiently from the perspective of the legal system.

Recently, with the increasing awareness of the importance of IP litigation, "2. Enhancement of IP dispute resolution system" was listed as one of the three major goals in the "Intellectual Property Strategic Program 2015." Further discussions are scheduled to be held in this fiscal year regarding the following points: [i] measures to facilitate collection of evidence in IP litigation, [ii] measures to allow the amount of damages to reflect the reality of business, [iii] measures to enhance the stability of IP rights all the way from the grant of IP rights to dispute resolution, and [iv] the appropriate way of exercising the right to seek an injunction. The document titled "Ten Proposals from the Research Commission on Intellectual Property Strategy" states that further examination will be conducted on the IP dispute resolution system covering the issues mentioned in [i] to [iii] above.

In this research, we examined various issues

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concerning IP litigation from the perspective of the legal system in order to improve the usability of the IP litigation system and to promote smooth corporate activities. We also examined what measures should be taken to make the Japanese system more attractive than other countries' systems from the viewpoint of IP right holders who *need to enforce* their rights or resolve disputes.

The reports of the aforementioned research projects stated that it would be too early to take legal measures concerning the appropriate way of exercising the right to seek an injunction. Thus, this research aims to provide basic data for further studies by establishing a committee of experts and having the committee discuss the following issues from the perspective of the legal system: [i] the evidence collection procedure, [ii] the amount of damages determined in IP litigation, and [iii] the stability of IP rights.

2 Method of This Research

(1) Research on Publicly Available Information

We gathered publicly available information regarding the legal systems related to IP litigation, held expert committee meetings, and provided basic data and referential materials to prepare questions for a questionnaire survey and an interview survey.

(2) Discussions at the Committee

We established a research committee consisting of attorneys and experts specialized in this research field in order to obtain advice based on their examination and analysis from an expert perspective. Three issues were discussed at the committee, namely, "stability of IP rights," "the evidence collection procedure," and "the amount of damages determined in IP litigation."

(3) Domestic Questionnaire Survey

Based on the discussions at the committee, we conducted a domestic questionnaire survey. We sent questionnaires by post or email to many companies, etc. that have been recently involved in IP litigation and law firms that have attorneys with the experience of IP litigation.

(4) Domestic Interview Survey

Based on the discussions at the committee, we conducted a domestic interview survey on companies, etc. with the experience of IP litigation and law firms that have attorneys well-experienced in IP litigation.

(5) Interview Survey on Experts

Based on the discussions at the committee and the results of the domestic questionnaire survey and the domestic interview survey, we prepared questions for an interview survey and asked them to IP litigation experts.

II Evidence Collection Procedure

The issues related to the enhancement of the evidence collection procedure are as follows.

(1) Obligation to Clarify the Specific Conditions (Article 104-2 of the Patent Act)

Regarding Article 104-2 of the Patent Act concerning the obligation to clarify the specific conditions, the idea of requiring submission of evidence to prove the specific conditions of the act of infringement or penalizing the suspected infringer, if the infringer fails to disclose the specific conditions of the act of infringement, by presuming that the act of infringement alleged by the right holder was actually committed, would be inappropriate in view of the facts that the purpose of said provision is not to require the suspected infringer to disclose specific conditions of the act of infringement that have not been perceived by the right holder, and that a penalty could lead to the filing of an exploratory lawsuit, and that the presumption of an act of infringement would be an excessively heavy penalty on a party that failed to provide specific information to justify its denial in the process of identifying issues at dispute.

(2) Order for Production of Documents (Article 105 of the Patent Act)

Regarding Article 105 of the Patent Act concerning an order for production of documents, it would be inappropriate to relax the document identification requirement in view of the facts that it would allow a court to issue a document production order without fully carrying out the document identification procedure and that the violation of such order would result in the court's recognition of the alleged fact as "truth." Regarding the idea of excluding the parties concerned from the list of the parties to whom the documents can be disclosed and the idea of adding third-party technical experts to such list, it should be noted that no-disclosure to the parties concerned and disclosure to third-party technical experts as assistants is possible even under the current Act. Furthermore, it would be inappropriate to establish a system that prohibits either party concerned from seeing any evidence submitted by the other party from the perspective of protecting the non-disclosed party's right to follow the procedure and complying with the principle of due process of law. On the other hand, it would be worth examining the idea of using third-party experts because there is a certain level of need for expert advice. However, it would be necessary to fully examine the feasibility of finding experts with the required level of technical expertise.

(3) Protective Order (Article 105-4 of the Patent Act)

Regarding Article 105-4 of the Patent Act concerning a protective order, the idea of reviewing and toughening the punishment on a party that violated a protective order would be inappropriate because it would make it even more difficult to use the protective order system.

(4) Evidence Collection (Article 132-2 and Article 132-4 of the Code of Civil Procedure) and Evidence Preservation (Article 234 of said Act) Prior to the Filing of an Action

Regarding the pre-action evidence collection procedure, in light of the principle that prohibits exploratory evidence collection, the difficulty of guaranteeing the enforceability of the pre-action procedure under the Japanese legal system, and the facts that the parties concerned might have to bear heavier litigation burdens, that patent trolls, etc. could abuse such procedure, and that a patent right is unique in that it could be invalidated, it would be inappropriate to make the procedure enforceable. The idea of using the evidence preservation system for the purpose of evidence disclosure would be contradictory from the perspective of legal theory because evidence preservation is permitted only when there is a risk of loss of evidence. On the other hand, under Article 132-4, paragraph (1) of the Code of Civil Procedure, which specifies "on-site inspection by a court execution officer" and "opinions from experts," necessary measures should be able to be devised and implemented more actively since said provision imposes the obligation not to interfere with those court execution officers and experts. However, regarding the idea of having a court execution officer conduct an on-site inspection for a patent infringement lawsuit, it has been pointed out that it is not realistic to expect a court execution officer to make a determination on technical matters.

III Amount of Damages Determined in IP Litigation

The issues concerning the amount of damages determined in IP litigation are as follows:

(1) Presumption of the Amount of Damage (Article 102, paragraphs (1) to (3) of the Patent Act)

Regarding Article 102, paragraph (1) of the Patent Act, the idea of limiting the disclosure of the profit rate of the plaintiff, which is demanding payment of damages under said provision, to the parties concerned would be inappropriate because it would allow the plaintiff to circumvent the obligation to disclose the profit rate under

Article 102, paragraph (1) of the Patent Act despite the fact that the plaintiff's disclosure of the profit rate is a premise for demanding payment of damages under said provision.

Regarding Article 102, paragraph (2) of the Patent Act, the idea of establishing a statutory provision concerning the cases where the amount of damage will be reduced based on a contribution rate and the idea of listing the points that should be taken into consideration when applying a contribution rate could contribute to improving predictability. However, such ideas would be inappropriate because they could make flexible resolution impossible in some cases. Meanwhile, regarding the idea of imposing the burden of proving the non-contribution rate on infringers, it should be noted that such arrangement already exists in the name of "partial reduction of the presumed amount of damage."

Regarding the idea of establishing a statutory provision to permit simultaneous application of paragraphs (1) and (3) of Article 102 of the Patent Act, it should be noted that such simultaneous application is already possible and that prompt establishment of such statutory provision is not necessary. Even if such statutory provision ensures the consistent legal interpretation that such simultaneous application is permitted, it is questionable how beneficial such statutory provision would be.

Regarding Article 102, paragraph (3) of the Patent Act, it will be inappropriate to increase the amount of damages for an intentional or malicious act of infringement because this could damage the predictability of the system due to the difficulty in determining whether the act is intentional or malicious. Meanwhile, based on the results of the domestic questionnaire survey and the domestic interview survey, an analysis of license agreements has revealed that the royalty rate agreed in a license negotiation conducted after the detection of infringement tends to be higher than the royalty rate agreed in a voluntary license negotiation. We have also recognized that, in some cases, the royalty rate determined in a license negotiation after the detection of infringement is almost the same as the royalty rate determined in a voluntary license utilization. Therefore, it would be inappropriate to statutorily specify that the royalty rate determined in an infringement lawsuit should always be higher than the regular royalty rate. Moreover, since the deletion of the word "regular" from Article 102, paragraph (3) of the Patent Act in the amendment of 1998, it has been clarified that the royalty rate determined by calculating the amount corresponding to the royalty rate specified in Article 102, paragraph (3) of the Patent Act can be larger than the regular royalty rate. In fact, it has been noted that, since the amendment of the Patent Act in 1998, the royalty rate determined by a court has become higher than the one determined prior to the amendment.

Thus, there seems to be no need to amend Article 102, paragraph (3) at this moment. Regarding the idea of creating a database and guidelines concerning royalty rates, although some people find them useful as referential materials, the creation of a useful database and guidelines as referential materials for a person determining a royalty rate would be impossible in reality due to the facts that it is difficult to collect data about actual royalty rates which are supposed to be kept secret under a license agreement and that the royalty could be set at a level higher than the value of a patented invention. The creation of an insufficient database and guidelines could cause inaccurate use of figures and would not contribute to the determination of appropriate royalty rates.

(2) Issues Related to the Legal Nature of Article 709 of the Civil Code as a Special Provision

In connection with Article 709 of the Civil Code, the concept of punitive damages is incompatible with the principle of compensatory damages specified in the Civil Code. Since punitive damages are not compatible with the Japanese legal system, the introduction thereof would be inappropriate. The idea of amending Article 104, paragraph (4) of the Patent Act in such a way that said provision permits an increase in the amount of damages in the case of an act committed either intentionally or by gross negligence would be inappropriate in view of the facts that it is difficult to determine whether a certain act has been committed either intentionally or by gross negligence and that such amendment would discourage legal acts as well.

(3) Attorneys' Fees

Regarding the defeated party's liability to bear the attorneys' fees, since there is no statutory provision that obliges the defeated party to bear the attorneys' fees, the attorneys' fees should be paid not by the defeated party, but in the way determined based on a causal relation with infringement. If the defeated party is obliged to bear the attorneys' fees, it would discourage the filing of a lawsuit. In many lawsuits in Japan, the plaintiff and the defendant are self-represented. It is important to note that Japan is not one of the countries where representation by an attorney is mandatory and that the issue of attorneys' fees should be examined in consideration of the principle of mandatory attorney representation.

IV Stability of IP Rights

The issues related to the stability of IP rights are as follows.

(1) Stability of Legal Relationships

The idea of establishing a time limit for the filing of

a trial for invalidation and the submission of an invalidity defense or imposing a uniform limit on what constitutes grounds for invalidation based on which an allegation can be made would be inappropriate because it would prevent patents from being invalidated even when they should not have been granted in the first place and would lead to a continuous monopoly.

(2) Determination of Patent Invalidity in an Infringement Lawsuit (Article 104-3 of the Patent Act)

Regarding the idea of introducing the "obvious" requirement to Article 104-3 of the Patent Act, it would be unnecessary at this moment to modify the scope of the grounds for invalidation based on which an invalidation defense is raised so that said scope will be narrower than the scope of the grounds for invalidation based on which an invalidation is sought in an invalidation trial. Since users consider the court's authority for patent invalidation appropriate, the introduction of such requirement would be unnecessary at this moment for the purpose of affecting the process of the formation of a court's pre-ruling opinion. On the other hand, it will be possible to consider adding the "obvious" requirement, if necessary, as a court procedure to prevent the unnecessary extension of the examination period. However, some people question the effect of the addition of such requirement. As described above, the "obvious" requirement could be added only after examining the possibility of amending the provision concerning a limit on re-trial (Article 104-4). Regarding the stability of IP rights, since the opposition system was established in the amendment of the Patent Act of 2014, it is necessary to examine the effect of said system on the stability of IP rights in infringement litigation.

Furthermore, it would be inappropriate to impose stricter limits on the grounds for invalidation based on which an invalidity defense can be raised than the limits imposed on the grounds for invalidation based on which an allegation can be raised in a trial for invalidation by limiting said grounds for invalidation based on which an invalidity defense can be raised to one based on evidence or to a usurped application or the lack of novelty. This is because, even if Article 104-3 limits the grounds for invalidation based on which an invalidity defense can be raised, any patent right that can be clearly considered to be invalid on any other grounds for invalidation would be considered to be unexercisable based on the legal theories presented in judicial precedents prior to the introduction of Article 104-3, which could consequently disturb judicial practices. On the other hand, it has been indicated that it is possible to take the stance that it is not necessary to synchronize the result of a civil lawsuit with that of an administrative lawsuit. Furthermore, it would be inappropriate to abolish the invalidity defense system.

(3) Modification of the Scope of a Patent Right

Regarding the idea of introducing a system to permit a patentee to expand or modify the scope of the patent right after patent grant, some people found that such system would permit a patentee to make a necessary amendment to the insufficient patent claims based on which an examiner's decision to grant a patent was made, even though they admitted that unconditional permission would be inappropriate, so that a product that another party manufactured by working the patented invention will fall under the amended claims of the patent. Before the introduction of such system, it would be necessary to carefully consider essential preconditions such as the introduction of an intervening right and the restriction of a retroactive effect, which would greatly change the basis of the current system.

(4) Introduction of a System to Check Patent Validity with the JPO

Regarding the idea of introducing a system to check patent validity with the JPO after patent registration, such newly established system to check patent validity is considered to be useful as long as users can use the system regardless of whether a lawsuit has been filed or not as a means to resolve a dispute prior to the filing of a lawsuit. However, according to the domestic questionnaire survey and the domestic interview survey, many respondents said that they could not imagine any circumstances under which such system should be used. There are many issues to consider before establishing such system, such as whether a patent should be invalidated if its validity is denied under said system. At the same time, it is important to grasp users' needs.

Regarding the practice of suspending judicial proceedings if either party concerned requests the JPO's patent validity evaluation, such court's decision to suspend judicial proceedings is appropriate under the circumstances where no legislation fact exists. Any amendment that would limit the court's power to control judicial proceedings would be inappropriate.

(5) Relationship between Trial Proceedings at the JPO and a Defense of Invalidity or Correction Raised in a Lawsuit

Regarding the situation where any right holder that raises a defense of correction is required to request a correction, whereas any suspected infringer that raises a defense of invalidity is not required to request a trial for invalidation, some people pointed out that the balance between right holders and suspected infringing infringers is unequal in terms of offense and defense. Other people pointed out that, while invalidity must be proven based on objective data, a correction can be requested voluntarily by any right holder and therefore that there is no unreasonable discrimination between those two parties. Furthermore, it

has been pointed out that right holders are prepared to make a correction if an opposition is raised, whereas suspected infringers have to face an unexpected lawsuit and therefore that an imbalance between offense and defense is inevitable and should not be regarded as an issue per se. Moreover, since right holders are obliged to fulfil patentability requirements and establish claims, it is not necessary to statutorily stipulate that a request for correction is not required to be made when a defense of correction is raised or that a request for a trial for invalidation is required to be made when a defense of invalidity is raised.

(6) Prevention of Revival of a Dispute

Regarding the idea that, after the JPO has made a decision to uphold a patent in a trial for patent invalidation, a party to an infringement lawsuit should be prohibited from raising a defense of invalidity on the same grounds, if we are facing the problem that such an invalidity defense actually delays dispute resolution, it is possible to interpret that such an invalidity defense is prohibited even under the current law. However, it might be a good idea to consider legal amendment to clarify that the same dispute cannot be revived.

(7) Reduction of the Double Risks Shouldered by Patentees

It has been pointed out that, in order to prove patent validity, each patentee has to win both an infringement lawsuit and an invalidation trial. The idea of abolishing the system of invalidation trial and only permitting a dispute over patent validity in an infringement lawsuit is inappropriate because the system of invalidation trial is a very effective, frequently-used means of dispute resolution that was established separately from the infringement litigation system.

V Conclusion

Discussions have been made about how to improve the IP dispute resolution system. After a series of amendments to the Patent Act and creation of the Intellectual Property High Court, etc., Japan has come to have a highly reputable IP dispute resolution system. It is still important to review the IP dispute resolution system from time to time in order to reflect recent changes in the industrial structure and new developments in international harmonization negotiations. Further examination is necessary to ensure that the Japanese IP dispute resolution system satisfies users' needs, while maintaining a high level of legal stability and predictability in consideration of the insights on the legal system of IP dispute resolution and the opinions from system users gained through this research.

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