

12 Study on Current Conditions Regarding Industrial Property Disputes

In recent years, issues related to industrial property disputes have been attracting a lot of attention. Reflecting this trend, the Strategic Program for the Creation, Protection and Exploitation of Intellectual Property 2005 highlighted such outstanding issues as how to reduce the burden of proof shouldered by a party filing a lawsuit over infringement of intellectual property and how to improve the examination system of the Patent Office.

This paper presents the results of our study conducted to grasp current conditions regarding the compensation system and allocation of the burden of proof. In this study, we reviewed court decisions on intellectual property cases and also conducted a survey on companies by sending them questionnaires and conducting interviews with them.

In addition, in order to study the burden currently shouldered by related parties in providing proof for the value of an invention, we have conducted research on court decisions and inspection of relevant court documents. We have gathered and analyzed information on the calculation methods for such invention value and the methods for justifying the amount of compensation.

Furthermore, in an attempt to find out how to improve the examination system of the Patent Office, we conducted a survey on users of the system by sending them questionnaires and holding interviews with them in the hope to obtain an evaluation from system users and review the functions and roles of the system employed in dealing with intellectual property disputes.

I Compensation System

1 Purpose of this study

(1) Necessity of the study

Any intellectual property right holder who demands compensation for the damage caused by an infringement of the right must prove such related facts as the intention or negligence of the infringer, the infringement of the intellectual property right, the suffering of the damage, and the relationship between the infringement and the damage. These facts, however, are difficult to prove in most cases. For this reason, industrial property laws including the Patent Law have special clauses as exceptions to the Civil Code and the Civil Procedure Code.

Meanwhile, the Strategic Program for the Creation, Protection and Exploitation of Intellectual Property 2005 states that “In fiscal 2005, while making every effort to notify the public of the revised discovery system and other new developments, we need to further study important issues related to intellectual property and make necessary changes in the legal and other systems. Such important issues include protection of intellectual property of small and midsize companies, prevention of the abuse by large companies of their position of advantage, provision of appropriate remedies to right holders

through the compensation system concerning intellectual property such as the damage calculation system, and reduction of the burden of proof shouldered by the party filing an intellectual property lawsuit such as the need to justify the amount of damages.” Under this program, we need to have an accurate understanding of the operation of the current compensation system.

(2) Purpose of the study and matters related to the study

Against the aforementioned background, this study on the compensation system for intellectual property infringement was conducted in order to understand and analyze the operation of the current compensation system. This study is expected to clarify whether the current compensation system provides appropriate remedies to right holders and how the system should be further improved.

For example, 1) we reviewed past infringement cases and collected and analyzed information on the details of the infringed patents, the amount of damages, and the provisions of industrial property laws applied to the cases (only those provisions introduced by revisions from 1998 through 2004), etc., as well as studying the general trend in the amount of damages awarded by the courts, and 2) in addition to such analyses, we conducted a survey on companies by sending

them questionnaires and holding interviews with them in order to grasp current conditions regarding the compensation system for intellectual property infringement and allocation of the burden of proof.

2 Study of domestic court precedents

We studied individual cases in which compensation was sought for damage caused by infringement of industrial property rights (including patent rights, utility model rights, design rights and trademark rights) for the purpose of grasping the trend in the claims of right holders (the provisions under which the claims were made and the amounts of damages sought) and also in the court judgments (the provisions applied to the cases and the amount of damages awarded).

As the primary purpose of this study was to observe the effect of the legal revisions implemented since 1998 (e.g. Section 102(1) of the Patent Law) on court decisions, we selected cases for which courts handed judgments during the period from January 1, 1996 through June 30, 2005 so that we could cover the period both before and after the legal revisions.

This study clearly revealed that the number of judgments concluded based on the revised laws was on the rise. However, the legal revisions did not contribute to increasing the amount of damages awarded by the courts. Hoping to identify a long-term trend, we studied court decisions made during a longer time span. We calculated an average approval rate for the amount of damages sought in court for infringement of a patent right or utility model right in the period from 1989 through 1994 and also in the period from 1999 through 2004. We then compared the two.

We found that the approval rate for the period from 1989 through 1994 was 35.73%, whereas that for the period from 1999 through 2004 was 43.19%. It would therefore be safe to conclude that the approval rate for cases where damages are sought has been on the rise for the past ten years.

3 Questionnaire survey

In the preceding section, we presented the results of our study on precedents with regard to the amount of damages and the application of revised laws, etc. While another important purpose of this study is to clarify the actual

situation regarding allocation of the burden of proof, we have been unable to fully achieve this purpose because court documents for the precedents have no clear statements about this matter.

In an effort to obtain related information, we conducted a survey by sending out questionnaires and holding interviews.

(1) Outlines of the survey

The survey was conducted from January 1, 1998 through June 30, 2005 on 119 companies to which damages were awarded, in whole or in part, in lawsuits against infringement of industrial property rights (including patent rights, utility model rights, design rights and trademark rights). These companies were chosen based on the criteria that they were located in Japan and could be identified by the address to which this questionnaire was sent. We received a response from 29 companies (response rate: 24%).

(2) Results of the survey

- (i) All the respondents are corporations, many of which are large companies capitalized at 300 million yen or more.
- (ii) 73% of the respondents cited the Patent Law as the law under which they sought damages. The rate rose to 80% when both cases involving patents and those involving utility models were subject to the calculation.
- (iii) Regarding Section 102(1) (Lost Earnings) and relevant clauses of the Patent Law, the advantage of their use cited most often was "It is easy to justify the calculation of the damages," while the disadvantage of their use cited most often was that "Right holders must disclose the amount of profits against their will." Slightly over half the respondents answered that the burden on right holders to justify the amount of damages sought "has been reduced." The respondents were equally divided over whether the amount of damages awarded was reasonable or too small in light of the real significance of the actual damage. Half replied it was "Reasonable," while the other half said it was "too small." A majority of the small and midsize companies participating in the survey answered that it was "too small."
- (iv) Regarding Section 102(2) (Estimate of the damage) and relevant clauses of the Patent Law, the advantage of their use cited most

often was that “there is little room for an infringer to submit a plea,” while the disadvantage of their use cited by the overwhelming majority was that “It is difficult to prove the amount of profits gained by the infringer.”

The vast majority of the respondents answered that the amount of damages paid under this provision was too small in consideration of the significance of the actual damage.

A comparison between these results and the results described in (iii) above shows that the introduction of Section 102(1) of the Patent Law by the 1998 revision contributed to enhancing the protection of the right holder by increasing the amount of damages awarded and decreasing the burden of proof in a patent infringement case.

- (v) Regarding Section 102(3) (Amount Equivalent to License) and relevant clauses of the Patent Law, the advantage of their use cited most often was that “the payment may be sought even if the patent, etc., has not been exploited,” while the disadvantage of their use cited most often was that “It is difficult to prove the amount of the sales of the infringer.”

76% of the respondents answered that “the royalty rate awarded by the court” was “high” or “reasonable.” This suggests that, thanks to the revision of the 1998 law, courts are more likely to take into consideration the circumstances surrounding each individual case and award a reasonable amount of damages.

- (vi) Regarding Section 104(2) (Obligation to clarify relevant act in concrete manner) and relevant clauses of the Patent Law, the advantage of their use cited most often was “A reduction in the specific burden of proof,” while the disadvantage of their use cited most often was that “There are no provisions for sanctions against any party that violates the duty of disclosure.”

In response to the question, “Has this provision contributed to making infringers clarify relevant acts?,” about half answered “Yes” and the other half said “No.”

- (vii) Regarding Section 105 (Submission of Documents) and relevant clauses of the Patent Law, the advantage of their use cited most often was “It reduces the burden of proof,” while the disadvantage of their use cited most often was that “It is difficult to

identify the documents owned by the other party.”

It should be noted, however, that there are few cases where the submission of documents is sought under this provision. This is probably because documents are usually submitted voluntarily in response to the instructions given by the courts at appropriate times.

- (viii) Regarding Section 105 (3) (Award of Reasonable Damages) and relevant clauses of the Patent Law, 93% of the respondents answered “No” to the question, “Have you received a reasonable award of damages from the court?.” This shows that this provision has rarely been applied. It indicates that, in most cases, sufficient proof of the facts, which is required for the approval of damages, is presented without the application of this provision.

II The Calculation of Compensation in Court in Cases Where the Compensation for Employee Inventions is Sought and Each Company’s Stance on the New Employee Invention System

1 Recent trends in employee inventions

In recent years, lawsuits to determine “reasonable compensation” for employee inventions have been attracting public attention. In particular, the case of Nichia Corporation, for which a court decision was handed down in January 2004, and the cases before and after the Nichia case, namely those of Hitachi and Ajinomoto, greatly increased public interest in the issue of compensation for employee inventions as unprecedented high amounts of compensation were awarded.

These lawsuits were handled under the old employee invention system. In each of the cases, the plaintiff had already received compensation when he was an employee of the defendant company. The amount of compensation was later found to be unreasonable in court.

In this way, the old employee invention system was considered to have the disadvantage that an employee or other party in a similar position who has made an invention tends to feel unsatisfied with the compensation while the employer or other party in a similar position has little way to predict the amount of compensation required. To improve this situation, Section 35 of

the Patent Law was revised in the ordinary session of the Diet in 2004, which led to the implementation of the new employee invention system in April 2005.

Under the new employee invention system introduced by the legal revision, special emphasis is placed on a voluntary agreement made between the employee or similar party and the employer or similar party. The judgment as to whether the amount of compensation is reasonable is made based mainly on the process by which the two parties made such an agreement.

2 The purpose of this study

(1) The calculation method used in court in which compensation for employee inventions was sought and the method used by the plaintiff to justify the amount of compensation sought

As mentioned above, public interest in cases concerning compensation for employee inventions has been growing. The public is particularly interested in the calculation method for the compensation.

In many of those cases, the plaintiff instituted a lawsuit after he retired from the defendant company. For this reason, the plaintiff had difficulty in obtaining data necessary for the calculation of compensation such as the sales and profits of the defendant company and the income gained from the licensing of the invention to third parties. In order to have a better grasp of real conditions, we conducted a study on the calculation method for the compensation considered reasonable in each case where compensation for an employee invention was sought and also on the method used to justify the compensation level sought by the plaintiff (inventor) for each case because little was known about such justification methods.

(2) Measures taken by each company in response to the introduction of the new employee invention system

There are two aspects to the series of steps from the establishment of a standard for compensation to the payment of compensation. The first one is the procedural aspect. The second one is the substantive aspect such as the contents of the standard and the amount of compensation finally paid. Under the new employee invention system, it is important to remove irrationality from the process of

determining the amount of compensation. Such removal requires care in the establishment of new procedures.

Nine months have passed since the implementation of the revised law. In order to study the measures taken by each company in response to the introduction of the new employee invention system, we conducted a survey by sending questionnaires to companies.

3 Study on court precedents in which compensation for employee inventions was sought

(1) Study on precedents

In order to obtain data about the calculation methods for compensation used in lawsuits where compensation for employee inventions was sought and also about the methods used by plaintiffs (inventors) to justify the amount of compensation sought, it is necessary to analyze individual infringement cases. We therefore examined each court precedent in which compensation for an employee invention was sought in order to analyze the plaintiff's claim, the defendant's (employer's) rebuttal, and the court judgment.

(2) Results of the study on precedents

This study was conducted on 29 cases disputing what the reasonable amount of compensation for the employee invention was. The number of court judgments seems to have been increasing since around 2001.

(3) Approval of requests

Of the 29 cases, court approval was granted to the plaintiff in 19 cases. The approval rate was therefore 62%.

This study was conducted on the court decisions given in the first half of 2005. Therefore, the final study result for 2005 as a whole is expected to be different. During the period from 2001 through 2004, not only the number of court judgments but also the number of approvals were on the rise.

(4) Calculation methods for compensation

We also studied the compensation calculation methods claimed by the plaintiffs and the calculation methods approved by the courts.

(1) Compensation calculation methods claimed by the plaintiffs

In our study of precedents, we discovered 23 different calculation methods were employed to justify the compensation claimed by the plaintiffs.

Those methods can be roughly classified into the following four groups:

- (i) Calculation method based on sales;
 - (ii) Calculation method based on the income of the defendant company in the form of royalties;
 - (iii) Calculation method based on the profits gained by the defendant company; and
 - (iv) Calculation method based on the net production value inside and outside Japan.
- (II) Compensation calculation methods approved by the courts

Meanwhile, we found 15 different calculation methods for compensation approved by the courts. Those methods can be roughly classified into the following three groups:

- (i) Calculation method based on sales of the defendant company;
- (ii) Calculation method based on the income of the defendant company in the form of royalties; and
- (iii) Calculation method based on the profits gained by the defendant company.

4 Method used to justify the amount of compensation sought by the plaintiffs in the case where compensation for an employee invention was sought

(1) Examination through inspection of court documents

In the previous section, we presented the major calculation methods for compensation based on our study of precedents. However, that study did not provide us with information about the methods used by the plaintiffs to justify the amounts of compensation they sought. As acquisition of such information was one of the purposes of our study, we went to the courts and inspected the documents concerning some of the cases in order to examine how the plaintiffs produced necessary justification.

(2) Results of the inspection

Since compensation is calculated based on the following seven factors, we studied how the plaintiffs produce evidence for the figures listed in (i) through (vii) below. We stated the compensation calculation method used in each case. With regard to the cases where we conducted an inspection and found out the evidence used for justification, we stated this evidence as well. In the case of any precedent on which we did not conduct an inspection, we stated the calculation method only:

- (i) Sales of the defendant company;

- (ii) Income of the defendant company in the form of royalties;
- (iii) Profits of the defendant company (other than the income specified in (ii) above);
- (iv) Net production value inside and outside Japan;
- (v) Royalty rate;
- (vi) Degree of contribution of the right to (i), (ii), and (iii) above; and
- (vii) Rate of contribution of the plaintiff to the right

(3) Conclusion – Analysis of evidence used in justification

Based on the results of our inspection, which revealed the evidence used by the plaintiffs for justification, we classified this evidence into two groups. One of the groups is for that evidence accepted by courts, and the other group is for that evidence rejected.

5 Measures taken by companies and other organizations in response to the establishment of the new employee invention system

(1) Outline of the survey

Nine months have passed since the implementation of the revision to Section 35 of the Patent Law. With the aim to study what measures have been taken by companies in response to the establishment of the new employee invention system, we conducted a survey in the following manner.

(i) Targets of this survey

Companies, universities, and public organizations that had ten or more patent applications publicized in Japan in 2004 (Total number of organizations meeting these conditions: 2,019)

(ii) Period of the survey

January 10, 2006 (Shipment date of questionnaires) through January 24, 2006 (Due date for posting of questionnaires)

(2) Results of the survey

(I) Response

1,093 (Number of responses)/2,019 (Number of questionnaires sent) (Response rate: 54.1%)

(II) Outline of the results of the survey

(i) Awareness of the new employee invention system

96.0% of the respondents (1,049 companies and other organizations) were aware of the change in the employee invention system. This

shows that the new employee invention system enforced on and from April 1, 2005 is well-known.

(ii) Revisions of the employee invention rules

A. Measures taken in response to the establishment of the new employee invention system

92.3% of those who were aware of the introduction of the new employee invention system said they have taken or would take measures (968 companies and other organizations).

(a) 86.7% (912 companies and other organizations) replied that "We have enforced or would implement the new employee invention rules."

(b) An analysis of the respondents by organization size shows that 94.7% of large companies (729 companies), 86.2% of small and midsize companies (193 companies), and 79.3% of universities and public organizations (46 organizations) gave the above-mentioned reply.

(c) According an analysis of the respondents by the number of applications, 99.5% (201 companies and other organizations) of those who submitted 200 or more applications, 94.5% (291 companies and other organizations) of those who submitted at least 50 applications but less than 200 applications, and 87.8% (476 companies and other organizations) of those who submitted less than 50 applications gave the above-mentioned reply.

B. Changes in the former rules

Among those who already had the new employee invention rules by the time of this survey, the most commonly-made alteration in their rules was "A change of the compensation calculation method," which was cited by 62.3% (540 companies and other organizations) of them as an alteration they made to their rules in response to the establishment of the new employee invention system.

C. Inventions transferred from employees to companies before the implementation of the new employee invention rules

65.0% (595 companies and other organizations) of the respondents said they had applied or would apply the new employee invention rules for the calculation of compensation following the implementation of these new rules.

(iii) Discussions

A. Regarding the people involved in devising the new employee invention rules in each organization, the most common answer was "All

employees," chosen by 56% of the respondents (449 companies and other organizations).

B. With regard to the means to hold discussions, 63.8% (508 companies and other organizations) answered "Explanatory meetings, while 61.7% (491 companies and other organizations) said "Intranet" (Multiple answers allowed).

C. The most frequent request from employees and other people concerned was "Clarification of the standards," cited by 34.5% of the respondents (275 companies and other organizations).

(iv) Upper limit of compensation

About the upper limit of compensation paid for the transfer of an employee invention, 68.3% (714 companies and other organizations) of the respondents answered there was "no upper limit."

(v) Means of disclosure

The most commonly used means to disclose employee invention rules was the Intranet, which was chosen by 74.5% (773 companies and other organizations) of the respondents.

(vii) Former employees

Regarding the payment of compensation for an invention made by a former employee, 70.4% (736 companies and other organizations) of the respondents said the treatment of a former employee will be "the same as a current employee" in terms of compensation for an employee invention. This shows many companies treat former employees and current employees in the same manner in this respect.

III Future of the Advisory Opinion System of the Patent Office

1 Purpose of the study

(1) Background

The Intellectual Property Policy Outline points out that "Along with reform of the litigation system we should also strive to strengthen alternative dispute resolution (hereinafter "ADR")." Furthermore, the Strategic Program for the Creation, Protection and Exploitation of Intellectual Property 2005 states that "In fiscal year 2005, we should continue seeking an appropriate division of roles between the Patent Office, which has an advisory opinion system, and ADR-related organizations in light of the results of the study conducted on ADR in connection with judicial system reform. We should then make alterations to the system, if necessary."

With regard to ADR, the ADR Study Group of the Secretariat of the Judicial Reform

Headquarters studied the possibility of expanding and promoting ADR and established the Law to Promote the Use of Alternative Dispute Resolution (the so-called ADR Law) which is applied to ADR in a comprehensible manner.

Meanwhile, a study on the advisory opinion system was conducted by a Dispute Resolution Sub-committee that belongs to the Intellectual Property Policy Committee of the Industrial Structure Council in 2002. Since the sub-committee concluded that "A further study needs to be made on this issue in consideration of the developments in the debate regarding the use of ADR in general," no further study has been made.

(2) Purpose and subjects of this study

In order to discover the way to improve the advisory opinion system of the Patent Office, we consider it important to listen to the opinions of the users of the system. We therefore conducted a survey and interviews of users to study how well the system is received by users and what roles the system plays and what effects it has on disputes over intellectual property.

2 Advisory opinion system and ADR

(1) Advisory opinion system

The advisory opinion system of the Patent Office was introduced by the revision to the Patent Law in 1959. This system is designed to have the Patent Office determine whether a certain article (the article that is suspected to have caused the infringement) infringes a patent. Under this system, an assessment as to the scope of a patent right is conducted not by the parties concerned but by the Patent Office, which granted the patent in the first place.

This assessment service of the Patent Office is provided as an administrative service. An assessment is given as an opinion of the Patent Office and is not legally binding. When a party receives an assessment, even if a party disagrees with the assessment, the party is not allowed to file a complaint with a court.

In short, the advisory opinion system of the Patent Office is not intended to bring about the final resolution to a dispute. The system aims to contribute to dispute settlement by showing the Patent Office's opinion on whether the article in question infringes a patent, assuming that the right is valid.

The number of requests for these opinions has significantly increased, peaking in 2000. In recent years, the figure has remained around 100.

(2) ADR

ADR (Alternative Dispute Resolution) is a means to settle a dispute in a flexible manner in terms of both substance and procedure based on the intentions of the parties concerned. The advantage of ADR is that users can consult with experts in various fields at a lower cost in comparison with the case of a trial, which is less flexible in terms of cost and time.

There are two types of ADR organizations that provide dispute settlement services to meet the unique needs of each dispute. The first one is "governmental ADR organizations." The other one is "private ADR organizations." However, according to the Judicial Reform Council, "the ADR services do not necessarily function properly with the exception of those offered by a small number of ADR organizations" as currently shown in the results of interviews held with ADR organizations and users as well as surveys conducted of private ADR organizations. Those interviews and surveys, carried out by the ADR Subcommittee, have revealed that (1) the public has insufficient awareness and understanding of the existence and purpose of ADR, (2) the public is not well informed of private ADR organizations and therefore feels uneasy about using them, and (3) there are regulatory restrictions that prevent the active use of the ADR system.

One of the private ADR organizations concerning intellectual property rights is the Japan Intellectual Property Arbitration Center, which offers such services as consultation, arbitration, intermediation, center assessment, and settlement of disputes over JP domain names. The service "center assessment" provides an assessment on the scope of a registered patent right, utility model right, design right, or trademark right and also on the effect of any of those rights. The process and result of such an assessment is not open to the public, as is normal for ADR.

3 Survey

This survey was conducted on 257 companies and organizations that requested an advisory opinion in and after 1998 and had a Publication of Advisory Opinion issued. Each of them was involved as (A) a party requesting an advisory opinion on a possible infringement of its patent and also as a party whose product is suspected of infringing a patent of another party or (B) a party requesting an advisory opinion on a possible infringement of its patent or as a party

whose product is suspected of infringing a patent of another party more than once. In total, we received 53 responses (response rate: 21%).

<Outline of the results of the survey>

(i) About 70% of the respondents were companies. In fact, about 60% of the respondents were companies capitalized at 300 million yen or more. In short, a majority of respondents were large companies.

More than 80% of the respondents said that, when they were involved in the process of obtaining an advisory opinion from the Patent Office, they had agents (patent attorneys in most cases) represent them.

About 40% of the respondents spent a total of 0.3 million (inclusive) to 1 million yen (exclusive) to obtain an advisory opinion, although the official fee for an advisory opinion was only 40,000 yen. This shows that an agent's fee accounts for a large part of the cost in many cases.

(ii) The most common reason for using the advisory opinion system of the Patent Office was a need to issue an infringement warning, followed by legal measures, and negotiations, etc. This indicates that many users of the system obtain an advisory opinion with the aim to present it to the possible infringer.

The most frequently cited reason for using the advisory opinion system was its public nature. The users of the system tend to appreciate the system due to the public nature of the opinion, the accuracy of the advice, fairness of assessment, and impartiality of treatment. They value these characteristics of the system to a greater degree than the low usage fee and the short waiting period.

(iii) About 60% of the respondents considered the advisory opinions agreeable, while about 40% regarded them as not agreeable. More than 80% said that they had sufficient opportunities to fully express their opinions. Not a few of those who found advisory opinions disagreeable considered those opinions appropriate nonetheless.

Most respondents answered that they would take part in a hearing on a case-by-case basis. This reluctance is probably attributable, in large part, to the burden imposed on hearing participants.

A majority of the respondents chose "perfectly understandable" or "relatively understandable" that the advisory opinion

system publicizes advisory opinions, does not allow a system user to submit an opposition, does not give a legally binding judgment, and does not judge whether the right in question is valid or not. This shows the respondents were divided over the advantages and disadvantages of those characteristics of the system.

(iv) More than 90% of the respondents have been involved in a lawsuit or obtained an opinion from a lawyer or patent attorney.

Most respondents prefer the advisory opinion system to opinions from lawyers or patent attorneys in many respects. However, they consider such experts' opinions more convenient in terms of usability and swiftness.

(v) About 10% of the respondents have used private ADR organizations. This indicates that, in comparison with lawsuits or lawyers' and patent attorneys' opinions, companies are not familiar with the services offered by ADR organizations.

As much as about 50% of the respondents answered that they had not heard of center assessment.

What they expected from private ADR organizations were fairness, impartiality, expertise and nondisclosure. They considered these characteristics more important than costs.

(vi) More than 80% of the respondents hoped that the Advisory Opinion System of the Patent Office will continue, while some of them attached desired conditions for the continuation of the system. Those conditions included the simplification of procedures, establishment of regional branch offices, and granting of legally binding power.

To the question as to what action to take if the Advisory Opinion System of the Patent Office did not exist, the most frequently given answer was that they would institute lawsuits. This suggests that the Advisory Opinion System plays a certain positive role in terms of reducing the number of cases brought to court although it does not bring about the final settlement of disputes.

4 Conclusion

Based on the results of this survey and interviews conducted on the users of the Advisory Opinion System, which is designed to provide fair and impartial opinions by a public

institution in a swift and inexpensive manner, we conclude that the system contributes to reducing counterfeiting and plays a role in resolving disputes in general.

(Researcher :Takahiro HIRAIWA)

