10 Facilitation of the Use of Patented Inventions

It has been pointed out that the exercise of patent rights for inventions related to upstream technologies in life sciences and those for inventions involved in technical standards in information communication and electronics would, contrary to the purport of the patent system, hinder technology development or impair the pubic interest. This study discussed this problem, which would affect the facilitation of the use of these patented inventions, while trying to find legal principles under laws other than intellectual property laws that can be applied or used as reference for solving this problem. First, the details of regulations under anti-monopoly laws in Japan, the United States and Europe with regard to the exercise of patent rights were examined, focusing on the regulations for patent licensing agreements and the cases where the exercise of a patent right was disputed under anti-monopoly law. Then, in order to understand the legal principle for determining whether to grant or deny an injunctive relief upon the exercise of a patent right in the United States, the cases after the eBay Case were reviewed. Next, the legal principle of abuse of rights under the Civil Code of Japan was researched in terms of the relevant academic theories and judicial precedents as well as the cases where the principle was applied to the exercise of a patent right. Lastly, in relation to the requirement of "for the public interest" under the award system, the legal principles for restricting private rights "for the public interest" under the Constitution, the Civil Code, and the Land Expropriation Land were examined

I Introduction

The possibility that the exercise of patent rights would hinder technology development or impair the public interest has been pointed out. This problem arises from patented inventions related to research tools (technologies used in the R&D process) in the field of life sciences, and also from patented inventions involved in technical standards in the fields of information communication and electronics. If these patented inventions cannot be used freely in the R&D process or industry, it would hinder technology development or impair the public interest.

Possible countermeasures for the issue of "difficulty in using patented inventions freely" may be "experimental/research use exception" under Article 69(1) of the Patent Act and an award to grant a non-exclusive license "for the public interest" under Article 93(1) of the same Act. The 2004 study entitled "Exceptions to and Limitations of the Effect of Patent Rights" collected and compiled information on legal systems and judicial precedents in foreign countries with regard to such experimental use defense and compulsory license, and examined them though comparison with those in Japan.

However, systems for restricting the exercise of patent rights under laws other than the Patent Act and other intellectual property laws have not yet been fully studied, and which system is applicable at all and is most suitable to solve a particular problem has also not yet been clearly identified. Furthermore, full study has not been conducted with regard to the methods for determining the applicability of relevant legal principles under laws other than intellectual property laws and factors to be taken into consideration for such determination.

With the awareness of the problems mentioned above, this study aimed to consider measures to facilitate the use of patented inventions by examining legal principles under laws other than intellectual property laws that may be applicable for coping with these problems and obtaining reference information on the methods for determining the applicability of relevant legal principles and factors to be taken into

consideration for such determination.

II Regulations under anti-monopoly law regarding patent rights (Japan, US, Europe)

Anti-monopoly law is that for maintaining and promoting market competition by regulating acts that are likely to impede competition. On the other hand, a patent right is "monopoly" right granted by the State which has "exclusive" nature as its basic element. Therefore, the exercise of a patent right impedes market competition; it has the potential risk of conflicting with anti-monopoly law.

Based on this understanding, this section examined the details of regulations under the anti-monopoly laws in Japan, the United States, and Europe with regard to the exercise of patent rights. In particular, research was performed on the contracts concluded between businesses whereby the patentee licenses the other party to work the patented invention, focusing on the details of regulations under the respective anti-monopoly laws and the cases where disputes occurred under the anti-monopoly laws in terms of patent rights.

To examine the regulations under the Anti-Monopoly Act of Japan, this section reviewed the "Guidelines for Patent and Know-how Licensing Agreements under the Anti-Monopoly Act" (July 30, 1999) which indicate the policy of the Japan Fair Trade Commission (JFTC) on the licensing issues. The Patent and Know-how Guidelines show the JFTC's viewpoints under the Anti-Monopoly Act regarding the exercise of patent rights, as well as those regarding (1) private monopolization, (2) unreasonable restraint of trade, and (3) unfair trade practices with regard to licensing, corresponding to Article 3 and Article 19 of the Anti-Monopoly Act. In particular, with regard to unfair trade practices prescribed in Article 19, the guidelines indicate four categories of restrictions under licensing agreements according to the four grades of illegality. These guidelines are currently in the revision process by the JFTC. We should take note of future developments.

Since the provisions of the Anti-Monopoly Act are written in abstract expressions, it is desirable to understand their meanings by referring to individual relevant cases. In Japan, the number of cases of Anti-Monopoly Act violation is basically small. From among a limited number of cases of Anti-Monopoly Act violation involving patent rights, nine cases were examined as cases where the JFTC issued a cease and desist order, and six cases were also examined as cases where violation of the Anti-Monopoly Act was alleged in lawsuits on infringement of patent rights, etc.

The next subject was the regulations under the US anti-trust law, which is a very important legal system that has provided the basis for the Anti-Monopoly Act of Japan. First, the specific Acts forming the anti-trust law were outlined, namely, the Sherman Act, the Clayton Act, and the Fair Trade Commission (FTC) Act, and basic concepts under the anti-trust law, such as "horizontal" and "vertical" relationships, the "rule of reason," "illegal per se," and "safety zone," were also briefly described. Then, various issues on licensing were reviewed based on the basic court decisions in the past and the provisions of the guidelines. To show examples of monopolization, the Verizon Case disputing discriminatory service and the case disputing reverse payment settlement (under the settlement contract in the patent infringement lawsuit, the infringing company promised to suspend the R&D process for its products for a certain period of time on the condition that it receive some consideration) were illustrated. Brief descriptions were also presented regarding various restrictions on licensing, including those on licensees' activities (resale price maintenance), licensing terms (tying clauses), and royalty. Next, among the issues concerning anti-trust lawsuits against patentees, "standing to sue" was discussed. Most anti-trust cases taking place in the United States are civil actions. In order to prevent too many actions from being brought to court, the anti-trust law provides for some

requirements for "standing to sue." Also in this context, reference was made to the exercise of a patent right obtained by fraud, which was disputed in the Walker Process Case, and to the abuse of industrial standards. As the last topic, the concept of "patent misuse" was outlined. The scope of patent misuse is not exactly the same as, but mostly overlaps with, that of anti-trust law violation. The requirement for the proof of patent misuse is not as strict as that of anti-trust law violation.

EU competition law, along with the US anti-trust law, is one of the most influential competition laws in the world, and the regulations and guidelines thereof have served as reference for Japan's anti-monopoly policy. Therefore, focus was placed particularly on the issues concerning the "Block Exemption Regulation for Technology Transfer Agreements" and the guidelines thereof. The existing regulation and guidelines differ from the former versions in that they contain economic perspectives such as the competitive relationships and the market share of the parties to the agreement. In this respect, the existing versions enable the parties to the agreement to make a flexible and appropriate decision for individual agreements, while, at the same time, requiring them to keep monitoring their competitors and market share. In addition, since markets change dynamically, the present conditions cannot be accurately identified by means of such monitoring, which only indicates the competitive relationships and market share in the past, and therefore, problems arise when the relationships have changed. For this reason, the revision of the regulation and guidelines is criticized as having reduced legal stability.

Furthermore, EU competition law is based on the call for market integration, which is peculiar to Europe, and therefore strictly regulates territorial market segmentation. Because of this, territorial restrictions under licensing agreements that are not illegal in the United States or Japan may be regarded as illegal in some cases in Europe.

III Legal principle for restricting the exercise of a patent right in the United States: grant or denial of an injunctive relief

An injunctive relief that a patentee can claim in the United States significantly differs from that prescribed in the Japanese Patent Act. An injunctive relief in the United States is a relief (1) to be granted by the court (2) in accordance with the principles of equity specific to common law, and (3) the court may grant or deny it.

Based on these points of difference, this section reviewed the background information on injunctive relief in the United States. In order to obtain a permanent injunction at the US court, the plaintiff should satisfy the following four conditions ("four-part test"): (1) the plaintiff suffered an irreparable injury; (2) remedies available at law, such as monetary damages, are inadequate to compensate for that injury; (3) considering the balance of hardships between the plaintiff and defendant, a remedy in equity is appropriate; and (4) the public interest would not be disserved by a permanent injunction. In the past, special treatment was applied in patent infringement cases, unlike other types of cases, that is, if the court found that the patent was valid and enforceable and that it was infringed, an injunction against the infringement was automatically granted. However, in the eBay Case in 2006, the Supreme Court abolished this special treatment for patentees, holding as follows: "the decision whether to grant or deny injunctive relief rests within the equitable discretion of the district courts, and (that) such discretion must be exercised consistent with traditional principles of equity, in patent disputes no less than in other cases governed by such standards."

Based on such background information, research was made to identify the influence of the eBay Case on subsequent patent infringement cases for an injunctive relief. First, two cases were examined in which a permanent injunction was granted. In the Telequip Case, the court followed the conventional policy of automatically granting

an injunctive relief based on the finding of validity/enforceability and infringement of the patent. This is because the defendant did not respond at all to the bill of complaint or appear at court. In the TiVo Case, the trial judge properly applied the four-part test as required by the eBay judgment. Next, an additional two cases were examined in which a permanent injunction was denied. In the z4 Techs. Case, the plaintiff was unable to prove that it suffered an "irreparable injury" or that "monetary damages were inadequate to compensate for that injury." In the Paice Case, the plaintiff was also unable to prove satisfaction of the four conditions.

IV Legal principle of abuse of rights under the Civil Code

Article 1(3) of the Civil Code provides that "No abuse of rights is permitted." Today, in almost all patent infringement cases, the allegedly infringing party raises a defense of abuse of a right, generally "asserting abuse of the right based on the grounds for its invalidity." Apart from such "assertion of abuse of a right based on the grounds for its invalidity," this section examined the acceptability of an "assertion of abuse of a right in the original sense," which means that on the premise that the right is valid, the exercise of the right appears to be legal but it is actually contrary to its social nature and therefore unacceptable.

In this context, the basic legal principle of abuse of rights was reviewed in terms of its concept and history, as well as trends in relevant academic theories and judicial precedents. Article 1(3) of the Civil Code is a general provision to which no particular requirement is attached. Therefore, it enables judges to make flexible determinations, thereby making up for the shortage in statutory discipline. However, there is also a problem that if the general provision is applied thoughtlessly, the binding force of statute laws would be ignored. For this reason, it is a common idea that the general provision should be applied as a "last resort."

In the judicial precedents and academic theories on the requirement for abuse of rights, the emphasis was initially placed on "determination based on the subjective circumstances" such as the right holder's intention to do harm. However, subsequently in the Unazuki Onsen Case and the Kumamoto Power Plant Case, the emphasis was shifted to the "objective requirements," which means that by making comparison of the objective interest for the right holder and that for the other party, abuse of a right may be found even when the right holder had no intention to do harm. In the Itazuke Base Case, the court clearly stated that the right holder's intention to do harm was not necessarily required. Such determination made based only on the comparison of the objective interests is criticized as giving preference to the interest of the strong party who has created a fait accompli. The current common theory is that determination should be made from a comprehensive perspective by also taking into consideration the subjective circumstances on the side of the right holder.

Since the requirement for abuse of rights varies depending on the type of the right allegedly abused and other circumstances concerned, it is impossible to establish a general standard that can be applied in every case. The legal principle of abuse of rights functions as a general provision to correct and supplement the existing rules, and because of this function, there is a limit to the attempt to establish it as a general standard.

The last part of this section examined the past cases where an assertion of abuse of a right was made against the exercise of a patent right. Specifically, eight patent infringement cases were presented in which the exercise of a patent right was alleged as constituting abuse of a right. In almost all of these cases, the court did not uphold or consider the defendant's (the allegedly infringing party's) assertion of abuse of the right. There is only one case where the court, taking into consideration the process in which the patent right had been exercised, found the patentee to have abused the right by filing a petition for provisional disposition.

At least in the present situation, it is very rare that an assertion of abuse of a right against the exercise of a patent right is upheld.

V Legal principle for restricting private rights for the "public interest or welfare"

Under the Japanese patent system, a non-exclusive license may be granted by an award when the working of a patented invention is particularly necessary "for the public interest" (Article 93 of the Patent Act). However, since this award system has been applied very carefully, no award has been given to date. The Operational Manual for the Award System illustrates only two cases as examples of "when the working of a patented invention is particularly necessary," and it does not provide any specific explanation about the requirements of "hindrance of the sound development of industry" and "substantial harm to the lives of citizens." Thus, in Japan, due to the lack of any precedents regarding various criteria for determining whether to give an award, we must say that it is difficult to predict the possibility of the grant of an award.

The concept of "public interest" or "public welfare" is used not only in the Patent Act but also in other laws such as the Constitution and the Civil Code. Under such other laws, this concept has been applied to actual disputes and discussed in a lot of academic theories. This section investigated, categorized, and examined the cases and academic theories in which private rights were restricted "for the public interest" under laws other than intellectual property laws, so as to find helpful information for examining the concept of "for the public interest" under the Patent Act. Specifically, the Constitution, the Civil Code, and the Land Expropriation Act were targeted.

Under the Constitution, the term "public interest" is used in Article 12, Article 13, Article 22(1), and Article 29(2). In particular, Article 29(2) provides that "Property rights shall be defined by law, in conformity with the public welfare."

The provisions on human rights under the Constitution were originally considered to be intended primarily to protect rights and freedom of citizens from state power. For this reason, academic theories are divided based on whether the provisions on human rights are also applicable between private citizens. The current common theory is the "indirect application theory" which argues that any act of violating human rights that occurs between private citizens should be nullified in accordance with the provision on public policy and other general provisions under private law by implanting the purport of human rights protection under the Constitution in these provisions.

The theories on the meaning of the term "public welfare" were roughly divided into three by Professor Ashibe: (1) theory of external constraint; (2) theory of combination of internal and external constraints; (3) theory of internal constraint. According to the theory of combination of internal and external constraints, only the rights for economic freedom under Articles 22 and 29 and the social right under Article 25 may be constrained for the "public welfare."

With regard to the standard for defining the limit of restrictions on human rights (standard for determining the constitutionality), the "double standard theory" is widely supported which argues that human rights should be categorized into rights for political freedom and rights for economic freedom and the constitutionality of restrictions on political freedom should be determined more strictly than economic freedom.

In the phase of determining the constitutionality, restrictions on economic freedom are categorized into two: (1) restrictions for negative purposes, such as preventing hazard to the life and health of citizens and maintaining public order and safety in society or eliminating or reducing hindrance thereto, and (2) restrictions for positive purposes, such as protecting the weak in economic aspects according to the philosophy of the welfare state or achieving balanced development of society and

economy.

Article 29(3) of the Constitution provides that "Private property may be taken for public use upon just compensation therefor." This provision means that public authority may restrict or seize property rights of private citizens if it provides compensation therefor. Academic theories are divided as to what is "just" compensation; the current dominant theory is that compensation should cover the loss completely.

Article 1(1) of the Civil Code provides that "Private rights must conform to the public welfare." This means that private rights are recognized as long as they are consistent with the development of social community life, and in this sense they have a limit (social nature of private rights). The term "public welfare" can be explained to mean "improvement and development of social community life as a whole." In Japan, after the war, Article 1(1) of the Civil Code was created based on the provision of Article 29(2) of the Constitution, "Property rights shall be defined by law, in conformity with the public welfare." Academic theories are divided with regard to the relationships between paragraph 1 of Article 1 and two other paragraphs of the same Article, namely paragraph 2 on the doctrine of good faith and paragraph 3 on abuse of rights. The past common theory argued that paragraph 1 of Article 1 of the Civil Code declared the principle of social nature of private rights, and paragraph 2 and paragraph 3 of the same Article applied this principle. However, Professor Wagatsuma's theory is that paragraphs 1 to 3 independently govern different legal relationships. This theory was cited in the Ananogawa Water Right Case.

The Land Expropriation Act provides for the expropriation and use of the land, etc. that is needed to implement projects for the public interest. The term "public interest" under the Land Expropriation Act has different meanings in individual clauses in which it appears. The term "public interest" in Article 1 has the same meaning as that in Article 29(3) of the Constitution, referring to the public's interest in society beyond individuals' interest. In order to meet the definition of the phrase "projects for the public interest" in Article 2, it is not sufficient for projects to contribute to national economy and indirectly benefit the public, and they should not be implemented for convenience or incidentally. Since this definition is difficult to understand, Article 3 lists the types of projects that fall under the category of "projects for the public interest."

Article 20 provides for the requirements for granting recognition of a project. Although the term "public interest" is not used here, the "public interest nature" of a project often becomes a point of issue when considering whether the project satisfies the requirement set forth in item 3 of the said Article, "the project plan shall contribute to the appropriate and reasonable use of the land." The leading case on this issue is the Nikko Taro Ceder Case, in which the court held as follows: "Whether the project satisfies the requirement under Article 20(iii) should be determined by comparing the public interest to be obtained when the land is used for the project and the private or public interest to be lost when the land is used for the project, and the requirement shall be found to be satisfied if the former interest comes first."

However, this comparison method poses questions: (1) whether it is possible to make comparison between the public interest and the private interest, which are different in kind; (2) how to measure the interest or value to be taken into consideration for comparison.

Academic theories are also divided as to the nature of the administrative agency's discretion for determining the satisfaction of the requirement under Article 20(iii), or more specifically, whether the administrative agency has limited discretion (the agency must take a certain measure if a certain statutory requirement is satisfied) or unlimited discretion. The limited discretion theory was common in the past, but recently, the unlimited discretion theory has become dominant by reason that whether or not to grant recognition of a project should be determined from the policy perspective. The

majority of the supporters of this theory require control over the process for making a determination, arguing that the administrative agency's discretionary determination should be found to be illegal if there was an error in the method or process in which it was made.

VI Conclusion

This study discussed the problem that the exercise of patent rights might hinder technology development or impair the public interest, while trying to find legal principles under laws other than intellectual property laws that can be applied or used as reference for solving this problem.

Based on the regulations under anti-monopoly laws in Japan, the United States and Europe, even where the exercise of a patent right appears to be legal "exercise of a right" under the patent law, it shall be subject to regulation if it is intended to unduly expand the scope of the right, which would result in impeding market competition. Acts that would be regarded as such exercise of a right include: (1) concluding a cross-licensing agreement with the competitor for the segmentation of the sales area or the production adjustment for the patented product (2) forming a patent pool so as to control or eliminate competitors' business activities by exercising the patent; (3) imposing restriction on the licensee with regard to the sales price of the patented product.

Under the US law, an injunctive relief for patent infringement is left to judicial discretion, and in order to obtain it, the patentee should satisfy the four conditions according to the principles of equity (specific to common law). In this context, where the patentee does not himself work the patented invention, an injunctive relief is less likely to be granted under the US law than the Patent Act of Japan.

The legal principle of abuse of rights prescribed in Article 1(3) of the Civil Code can be applied where the exercise of a right appears to be legal but it is found to be contrary to its social nature with the specific circumstances being taken into account. When applying this principle, the subjective requirements (e.g. the right holder's intention to do harm) and the objective requirements shall be examined, while making comparison between them. It is a general provision for which no clear requirement is set, and therefore judges can make flexible determinations. However, if such a general provision is applied thoughtlessly, the binding force of statute laws would be ignored. Therefore, careful consideration is required when applying it to the exercise of a patent right.

Under the Japanese patent system, a non-exclusive license may be granted by an award when the working of a patented invention is particularly necessary "for the public interest" (Article 93 of the Patent Act). However, since there is no precedent regarding various criteria for determining whether to give an award, this study investigated and obtained reference information from the cases and academic theories involving the concept of "public interest or welfare" as used under the Constitution, the Civil Code, and the Land Expropriation Act. When a private right is restricted for the public interest, comparison shall be made between the public interest to be obtained and the private interest to be lost. However, questions are posed as to the difference in kind between these interests and how to measure the interest or value concerned.

As outlined above, this study categorized and examined legal principles under laws other than intellectual property laws that restrict the exercise of patent rights.

The purpose of the patent system is to grant the person who has made an invention the right to exclusively work the invention for a fixed period of time, while requiring the inventor to disclose the invention, thereby encouraging the activities for making inventions and achieving the development of industry (Article 1 of the Patent Act). If research investments can be safely recouped by exercising patent rights, R&D will be promoted and trade of technology will be

invigorated. In short, patent rights are designed to promote industrial development.

However, if patent rights become too strong to the extent that they would hinder industrial development contrary to the original purpose thereof, the necessity to review or restrict these rights would arise. This study was conducted based on such assumption.

In this respect, it is inappropriate to restrict patent rights thoughtlessly on an ad hoc basis. Rather, it is necessary to aim an appropriate balance between protection and restriction of patent rights, while fully considering various factors concerned, such as whether the exercise of the patent right really hinders industrial development, whether the right is really too strong, whether the restriction of the right does not produce any conflict with other legal systems, and whether there is any other solution that is more suitable for the actual circumstances.

(Senior Researcher:
Sachiko NAKAMURA)