

5 Investigation of Preventing the Abuse of Patent Rights that Inhibit Industrial Development in Japan

It is said that, in the United States, there are multiple cases in which a person who is not running the business of manufacturing, selling, etc. for him/herself acquires and exercises a patent right for the purpose of obtaining a settlement or a license fee with the use of the patent right. Some people call some of such persons “patent trolls.”

Although there is no court precedent regarding a case equivalent to the aforementioned cases in Japan, the industrial circle is expressing concern that cases of the same kind as those in the United States are also arising in Japan. With regard to those cases, consideration from a legal standpoint has been requested.

In this study, a committee consisting of intellectuals conducted legal analysis of so-called patent trolls based on the assertions made and problems raised by the industrial circle, and held discussions on the question of whether to take measures, including guidelines.

In addition, the committee compared the systems of Japan and the United States in order to consider so-called patent trolls. Moreover, the committee also analyzed and examined recognition in Japan on the basis of the results of questionnaire and interview surveys.

I Introduction

1 Background

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Although there is no court precedent regarding a case equivalent to the aforementioned cases in Japan, the industrial circle is expressing concern that cases of the same kind as those in the United States are also arising in Japan. With regard to those cases, consideration from a legal standpoint has been requested.

This study is based on concerns over so-called patent trolls in Japan. Incidentally, although the term “patent troll” is indefinable, the term “so-called patent troll” is used in this report for convenience.

2 Purpose and content of the study

In this study, a committee consisting of intellectuals conducted legal analysis of so-called patent trolls based on the assertions made and problems raised by the industrial circle, and held discussions on the question of whether to take measures, including guidelines.

In addition, the committee compared the systems of Japan and the United States in order to consider so-called patent trolls. Moreover, the committee also analyzed and examined recognition in Japan on the basis of the results of questionnaire and interview surveys.

II Comparison between the Systems of the United States and Japan

In order to consider so-called patent trolls in Japan, the committee examined differences between the patent systems and patent infringement lawsuit systems, etc. of Japan and the United States.

(1) Stage of granting a patent

Some people point out that the standard for granting a patent is looser in the United States than in Japan.

(2) Stage of dispute

Matters concerning systems and their operations in the United States are listed below.

- (i) There is room to choose a forum for a patent infringement lawsuit that is advantageous to the patentee through forum shopping.
- (ii) It is pointed out that, in claim interpretation, emphasis is placed on the dictionary or general meanings of terms stated in the claims in many cases.
- (iii) Section 282 of the U.S. patent law stipulates

that the validity of a patent shall be presumed in a patent infringement lawsuit, etc. In addition, the standard for contrary evidence is that it be “clear and convincing evidence.”

- (iv) Prior user’s right is available only in limited cases.
- (v) There is trial by jury.
- (vi) There are the punitive damages system and “entire-market-value rule.”
- (vii) The discovery system is also adopted for patent infringement lawsuits.

Incidentally, for the period from 2001 to 2007, the rate of patent infringement lawsuits of the district court level, in which the patentee won, in Japan was about 20% while the rate of such patent infringement lawsuits in the United States was about 40%. The rate was higher in the United States than in Japan. However, there is controversy as to whether this result has statistical meaning because the number of lawsuits instituted in Japan is small.

III Industrial Circle’s Concerns and Actual Condition Survey

1 Way of thinking of the Japan Intellectual Property Association

The Japan Intellectual Property Association (JIPA) started considering measures against so-called patent trolling-like exercise of right in fiscal 2007 by launching an appropriate enforcement project, in response to the following facts: (i) Although no patent infringement lawsuit has been instituted by a so-called patent troll in Japan, there is an increasing number of cases in which a patentee also holds foreign patent rights and requires another party to obtain a global license, including a license in Japan; (ii) There is no guarantee that patent administration companies that are established for the purpose of exercising patent rights will not increase in Japan unlike in the United States; (iii) There have already been cases, in which a patent administration company as mentioned above exercises rights, in Japan. Under the project, the JIPA held discussions from the perspective of restriction on injunction, the amount of damages, the issue of responsibility for infringement, exhaustion of right and abuse of right, and reached a conclusion that, under the current system of Japan, patent trolling-like exercise of right may be prevented through application of the theory of

abuse of right. Then, the JIPA prepared a hypothetical case, in which the theory of abuse of right may be applicable, based on the forms of acts of patent trolling-like exercise of right, and provided it to this study committee as a subject-matter of consideration.

2 Recognition at Japan Automobile Manufacturers Association, Inc.

The Intellectual Property Committee of Japan Automobile Manufacturers Association, Inc. (JAMA) regarded the exercise of right, in which an investment fund, etc. that does not have development/production functions takes over a patent right and exploits expensive royalty, as one of the problems to be addressed since such exercise of right not only inhibits the sound development of industry but also is highly likely to harm consumer interests.

So-called patent trolls operate mainly in the United States where the intellectual property system and the court system as well as their operations are suited to foment the activities of so-called patent trolls.

However, in the United States, there is a movement represented by an eBay decision that was rendered by the Supreme Court of the United States.

In Japan, “injunction” is granted irrespective of the form of exercise of right if the exercise of right is found to be an “infringement.” Consequently, there is the “environment in which a right holder that does not take ‘inverse risk’ exercises his/her right in a unilateral and hostile manner with the use of ‘injunction’ based on a Japanese patent right.” There is no guarantee that such right holders will not seek to operate in Japan, and the hypothetical case that was prepared by JAMA may arise for real.

3 Results of actual condition survey in Japan

With the aim of gathering information about the recognition of/experience, etc. relating to so-called patent trolls, the committee conducted a questionnaire survey targeting persons at manufacturers, TLOs and distributors who are in charge of intellectual property. In addition, the committee conducted an interview survey in parallel with the questionnaire survey for the purpose of obtaining specific information.

(1) Awareness

According to an awareness survey on the issue of so-called patent trolls based on the premise that the respondent “has used a Japanese patent right,” few respondents have experience actually becoming subject to the exercise of right by a patent troll though many respondents have awareness of the issue.

(2) Recognition

Various answers were obtained through a recognition survey concerning “patent trolls.” There is a significant difference in recognition among the types of business. In the end, it was confirmed that the term “patent troll” is indefinable in the present situation.

(3) Experience in becoming subject to the exercise of right by a so-called patent troll

According to the questionnaire survey, the total number of cases of exercise of right by so-called patent trolls with the use of Japanese patent rights is smaller than the total number of such cases with the use of U.S. patent rights, and there are few cases that reach a license contract. In the interview survey, some also answered that they were forced to put in resources to cope with the exercise of right by so-called patent trolls with the use of Japanese patent rights.

(4) Results of other surveys

The committee also conducted surveys concerning requests for legal revisions and requests for preparation of guidelines, but not many respondents had such requests.

IV Remedy for Infringement of a Patent Right and Restriction on the Exercise of Right

1 Remedy for infringement of a patent right

(1) Injunction (Article 100 of the Patent Act)

The right to seek injunction is understood as a type of real right-like claimable rights, and subjective requirements, such as intention and negligence, are not required for seeking injunction. According to Article 100(1) of the Patent Act, it is possible to seek an injunction in a preventive manner in addition to the case where a patent right is actually being infringed. Moreover, according to the judgment of the Supreme Court of July 16, 1999, Minshu, Vol. 53, No. 6, at 957, a

demand for disposal/removal (Article 100(2)), which is claimable incidental to Article 100(1), is claimable only within the scope necessary for realizing the right to seek injunction.

(2) Damages

The Patent Act makes it easy for right holders to prove by setting a provision on the presumption of negligence (Article 103 of the Patent Act) and provision on the presumption of the amount of damages (Article 102 of the Patent Act). However, regarding the point of whether it is reasonable to stick to the idea that damages concerning intellectual property are intended to “indemnify losses,” fundamental discussions must be repeated in the future as the point must be positioned in the entire system of law of damages.

(3) Presumption of negligence (Article 103)

Specific content of the presumed negligence can be divided into (i) having not recognized/predicted the existence of a patent right and (ii) having not recognized/predicted that an invention belongs to the technical scope of another person’s patented invention. With regard to (i) “recognition of the existence of a patent right,” the majority of court precedents recognize the existence of the obligation to search patent rights. With regard to (ii) “whether to belong to the technical scope,” a high level of duty of care is imposed in general.

2 Restriction on the exercise of right

(1) Regarding constraint inherent in rights

(i) Basic idea of the exercise of right

The exercise of the right to seek injunction based on a patent right forces others to accept some sort of disbenefit. Then, a person who has become subject to the exercise of a patent right will endeavor to defend him/herself, for example, by arguing that the exercise of the right is, needless to say, not permitted under law, or by arguing that the exercise of the right constitutes an abuse of the right. However, the exercise of right and the abuse of right are not clearly distinguishable as long as the theory that rights involve inherent constraint is sometimes asserted as a reason why a certain exercise of right falls under an abuse of right.

(ii) Value of the exercise of a patent right that appears to be disadvantageous at first glance

To acquire property, which many people

recognize as having low value, at low cost and elicit the potential value of the property, thereby obtaining a profit corresponding to the difference is the basis of all economic activities. Recognizing such an act as unjust means denying the free economy that Japan adopts, and it is just self-abnegation for companies.

In the Unazuki hot spring case (judgment of the Supreme Court of October 5, 1935, Minshu, Vol. 14, at 1965) which is famous as an example case in which the theory of abuse of right was applied, what a person who had acquired land intended to do did not elicit the fact that the land in question has a great transaction value. In the case, the following point became an issue. A person who had acquired the land pressured a person who had installed a pipe for conveying hot spring water by demanding the removal of the pipe, etc., and intended to have the person buy the land together with neighboring land at a high price, which was not at all irrelevant to the potential transaction value of the land. Thus, a demand for the elimination of interference based on a property right was used as a means (leverage) of requiring “another person to buy the land at an unreasonably huge cost.”

In light of this, it is not strange at all to acquire a patent right that is not being exercised and obtain royalty by exercising the right. However, where a person intends to covet a profit that is totally irrelevant to the potential transaction value of the relevant patent right, such exercise of right may be constrained in some cases.

In the first place, private property rights shall be defined by law, in conformity with the public welfare (Article 29(2) of the Constitution of Japan). As long as patent right is nothing more than a type of rights under private law, it cannot be immune to such inherent constraint. The exercise of a patent right is originally impermissible in some cases. In other cases, it is not permitted due to the theory of abuse of right.

(2) Abuse of right

(i) Abuse of right (intellectual property right)

Abuse of right was used in the case where the relevant patent right involves an obvious reason for invalidation. On the other hand, there has been almost no case in which “abuse of right” was recognized based on the understanding that “though the right exists as valid, the exercise of the right is not permitted under such circumstances.”

(ii) Matters that should be taken into account in order to recognize the exercise of a patent right as an abuse of the right

Whether a defense of abuse of right against the exercise of a patent right should be accepted depends on the circumstances of individual cases, and it cannot be discussed by typifying cases without careful consideration.

In a court precedent, the court accepted a defense after not only weighing the personal benefit of a right holder that arises from the exercise of the right and disbenefit incurred by the other party but also weighing the personal benefit of a right holder and public interest (judgment of the Supreme Court on the Itatsuki base case, the judgment of the Supreme Court of October 26, 1938, Daishinin Minji Hanreishu, Vol. 17, at 2057). In addition, in another court precedent, the court accepted a defense of abuse of right for the case where the right holder intends to obtain benefits far beyond the potential value of the right, in other words, where the exercise of the right cannot be regarded as the realization of the value that the right originally has (Unazuki hot spring case).

Whether or not inherent constraint on a right is recognized or a defense of abuse of right is accepted against the exercise of a patent right can be determined only through discussion based on specific facts. Therefore, it is impossible to draw a conclusion based on the circumstances that are mentioned as a hypothetical case in this report. A conclusion can be drawn only based on an envisioned case that is as concrete as a series of evidence used in an actual lawsuit.

For patent rights, there are few scenes in which inconvenience arises unless a defense of abuse of right is accepted, because it is relatively easy to draw a reasonable conclusion by interpreting the scope of right in a limited manner. In addition, even if there are cases in which the exercise of a patent right must be constrained from the perspective of public interest as a demand for injunction made by a patentee based on a patent right conflicts with public interest, the Patent Act stipulates compulsory license (Article 83 of the Patent Act) in express terms as a method of adjusting the patentee’s interest and public interest.

(3) Compulsory license

(i) Regarding the award system

A compulsory license is established where a patented invention is not worked (Article 83 of the Patent Act), where a patented invention is necessary for the working of another person’s

patented invention (Article 92 of said Act) and where the license is particularly necessary for public interest (Article 93 of said Act). However, in any case, it is necessary to hold license negotiations with the patentee, etc. before requesting an award. Thus, it is allowed to request an award only where such negotiations have not reached a license contract. Moreover, as for constraints relating to the award system, it is not only necessary to fulfill the requirements provided in Article 83, etc. of the Patent Act but is also necessary to comply with the TRIPS Agreement and the Japan-U.S. comprehensive agreement, etc.

In addition, under the award system, a request for an award is not accepted if the grounds for the award cease to exist before the award is rendered. Even if an award has been rendered, the award may be rescinded in some cases for reasons including the case where the grounds for the award have ceased to exist (Article 90(1), Article 92(7) and Article 93(3) of the Patent Act).

(ii) Relationship with the issue of so-called patent trolls

(a) Regarding a request for an award

A person who files a request for an award will describe the necessity of working of the other party's patented invention. Therefore, if a person suspected of infringing a patent files a request for an award, the rendering of an award might be understood as allowing the act of infringement. Thus, it has been pointed out that there is concern that it will cause adverse effects on patent infringement lawsuits that are now pending or can be instituted in the future.

(b) Award in the case where a patented invention is not worked

The award system is intended to promote the working of patented inventions. Therefore, where a patentee is holding license negotiations with two or more persons, even if some of such persons file a request for an award, the grounds for establishing a compulsory license will cease to exist if the patentee grants a license to another such person.

(c) Compulsory license in the case where a patented invention is necessary for the working of another person's patented invention

Due to the Japan-U.S. comprehensive agreement, it is necessary to obtain a judicial or administrative finding to the effect that the patentee's act is anticompetitive.

(iii) Summary

As mentioned above, cases where an award is available are very limited under the current system. Moreover, it must be said that it is hard to exploit the award system in the case where a patented invention is not worked or that in the case where a patented invention is necessary for the working of another person's patented invention, as countermeasures against so-called patent trolls.

Incidentally, whether a request for an award for public interest (Article 93) is accepted is a matter of the necessity of the patented invention for public interest; therefore, it is not related to the point of whether the request is filed by a so-called patent troll.

(4) Exhaustion

The domestic exhaustion of patented products was instructed in obiter dictum in the judgment of the Supreme Court of July 1, 1997, Minshu, Vol. 51, No. 6, at 2299, and it was affirmed in general terms in the judgment of the Supreme Court of November 8, 2007, Minshu, Vol. 61, No. 8, at 2989.

Thus, the exercise of right by the patentee against a manufacturer of completed products after obtaining royalty from a parts manufacturer is to be hampered by exhaustion.

(5) Presumption of negligence

Taking court precedents, etc. into consideration, it is extremely rare that presumption of negligence is completely vanished for a person who is working a patented invention as a business.

Next, turning attention to the aforementioned relationship between a manufacturer of completed products and a manufacturer of parts, etc., whether warranty against defects (Article 570 of the Civil Code) under the Civil Code is applicable becomes an issue since the latter provides parts to be used for the infringement of a patent right.

Where the manufacturer of parts, etc. has concluded a contract that prohibits reverse engineering with the manufacturer of completed products, the manufacturer of completed products cannot comprehend the technical content of the parts, etc. and is not allowed, under the contract, to investigate the relationship with the relevant patent right. There is also a theory that, in such a case, the manufacturer of completed products is to be regarded as without knowledge and free from any negligence.

3 Measures against unlawful exercise of right

(1) Claim for damages, etc. against a so-called patent troll for the reason of a tort pertaining to an unjust patent infringement lawsuit, etc.

Where a so-called patent troll instituted a principal action of a patent infringement lawsuit, executed a judgment, filed a petition for a provisional disposition order or executed a provisional disposition order, if the act falls under torts, damages (Article 709 of the Civil Code) may be claimed against the so-called patent troll. Then, there seems to be no special problem in applying general standards for determining the establishment of a tort as mentioned below and such standards based on court precedents concerning intellectual property infringement cases, even in relationship with so-called patent trolls, as long as such application is premised on the Japanese patent system and patent infringement lawsuit system as well as their operations.

(i) In the case of institution of a principal action or filing of a petition for a provisional disposition order

The judgment of the Supreme Court of January 26, 1988 denied the establishment of a tort due to institution of a principal action or filing of a petition for a provisional disposition order.

(ii) In the case of execution of a judgment

According to the judgment of the Supreme Court of July 8, 1969, it seems that the establishment of a tort due to execution of a judgment is affirmed only in exceptional cases.

(iii) In the case of execution of a provisional disposition order

The judgment of the Supreme Court of May 7, 1938 and the judgment of the Supreme Court of December 24, 1968 affirmed the establishment of a tort.

(2) Demand for injunction and claim for damages, etc. against a patent troll for the reason of slander of business pertaining to an unjust warning of patent infringement to a customer

A “competitive relationship” as prescribed in Article 2(1)(xiv) of the Unfair Competition Prevention Act must be recognized between a so-called patent troll and a demandant.

According to a theory that positively

confirms a “competitive relationship” at different transaction stages and a potential “competitive relationship,” etc., even where a so-called patent troll only intends to grant a competitive manufacturer a license for its patented invention for value, the so-called patent troll can still be regarded as in a “competitive relationship” with manufacturers that work the patented invention or competitive technology, as long as it is a person who grants a license for the patented invention for value as business.

Incidentally, in multiple recent prevailing court precedents, the court positively confirmed room to dismiss the illegality of said demand and claim by considering them as a justifiable exercise of right, and held the requirements therefor and elements to be considered, etc.

(3) Antimonopoly Act

It is believed that, only for the limited forms of acts, the exercise of right by a so-called patent troll is restricted based on the Antimonopoly Act.

With regard to Article 21 of the Antimonopoly Act that excludes the exercise of right based on intellectual property from the application of the provisions of the Act, it is a present concurrent understanding that the Act is applicable to the exercise of right that has a significant influence on competition. However, as long as influence on the place of “competition,” in other words, market, as defined by Article 2(4) of the Antimonopoly Act is a ground for regulation under the Act, a so-called patent troll will not become subject to regulation under the Act unless such influence can be proven. In this regard, as the Intellectual Property Guidelines typically point out, where a right holder who holds prevailing technology exercises a relevant right in a discriminatory manner, the exercise of right is highly likely to be considered as a problem under the Antimonopoly Act. However, in other cases, particularly, in the case where a right holder seems to be exercising his/her right in an equitable manner, there remains a difficult problem concerning the proof of influence on competition in terms of the current interpretation of law.

V Way of Thinking “Inhibition of Development of Industry” from the Viewpoint of Economics

1 Whether the “exercise of a patent right in a manner that inhibits the development of industry” is possible

The system to promote technological development is required because: (i) it is extremely risky to invest money in technological development projects; (ii) the unit cost of investment for technological development is on the increase; and (iii) what is more, it is not very costly to imitate the achievements made by others. The patent system is considered to be serving as an important part of that system.

On the other hand, the patent system grants exclusive rights, and deadweight loss is thus inevitable. The patent system is aimed at ensuring investment in new technologies at the expense of utilization of technologies. If there is an argument that the possible inhabitation of utilization of technology by persons other than the right holder through the exercise of the relevant exclusive right is part of “inhabitation of the development of industry,” it means that the inhabitation is what has been supposed under the system.

2 Consideration from the viewpoint of economics

Patent rights are unique rights. Individual patent rights have different technical content from other patent rights. In addition, the value of a patent right depends on the person who works the patented invention since whether technology can be efficiently exploited depends on the ability of the user (human assets as complementary assets) in many cases. Therefore, the value of individual patent rights is determined mainly through bilateral negotiations.

From a model in economics, so-called patent trolls’ acts of taking aim at large companies, not clarifying the point at issue and not having production/R&D facilities for themselves can be understood as efforts to strengthen bargaining power in such negotiation process. That is, the acts of keeping the results of negotiations unpredictable and possessing mere rights separately from complementary assets are understood as nothing more than efforts for optimization in the case where there is room to increase monetary consideration by such acts.

From these, if the mechanism of the negotiation process is understood better, the influence of preconditions for negotiations on bargaining power will be more predictable.

However, since it is not that value estimation is concluded immediately after the determination of preconditions for negotiations, it is necessary to conduct hypothetical comparative analysis, including the question of whether or not parties concerned will become more likely to move in the direction of settlement if the system is reformed so that more time is required before an injunction is granted through court procedure, and utilize the results of the analysis as basic materials for improving the system.

IV Summary

In Japan, the issue of so-called patent trolls is not considered to be apparent, and the concept of “patent troll” cannot be made clear; therefore, there have arisen problems in terms of legislative technique. Thus, the committee decided not to make a specific proposal for reform in this study.

The publication of guidelines concerning interpretation of law, which should be determined only through court procedure, by an administrative agency can mislead parties concerned from the aspect of predictability; therefore, careful handling is required. In addition, the success or failure of a defense of abuse of right can be determined only through discussion based on specific facts. It is thus impossible to stereotype the cases where a defense of abuse of right is accepted. In the interview survey, there was hardly any opinion that requests preparation of related guidelines. Therefore, the committee reached a conclusion that guidelines concerning the issue of so-called patent trolls are not to be prepared.

When discussing a desirable way of the right to seek injunction, etc. in the future, attention to be paid to the point that balance between the protection and exploitation of inventions under the patent system should be sufficiently carefully examined in consideration of constraints imposed by agreements so as to ensure that the interests of individual inventors and patent brokers will not be impaired to a significant extent.

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