

9 The Enforcement of Patent Rights in Japan^(*)

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A patent confers on its holder (the patentee) the privilege to exclude a non-authorized party from using the technology protected by the patent. That said, a patent is only valuable if it is enforceable. Germany, Japan and the US have made substantial efforts to develop an efficient system of patent enforcement and are currently the most important and arguably the most advanced jurisdictions when it comes to patent right enforcement. In Japan, the importance of strong patent rights was most notably expressed by former Prime Minister Koizumi in February 2002, when he described Japan as an IP-based nation and initiated the enactment of the IP Basic Law in November 2002, leading, amongst other things, to the creation of the IP High Court in 2005. This report will provide an in-depth examination and analysis of the current state of enforcement-related measures and remedies available to patentees in Japan. It will focus on local and international jurisdiction rules as well as on the key elements of enforcement procedure including the evidence collection process, border measures, warning letters, preliminary injunction proceedings and declaratory judgment actions. Finally, my research will explain requirements for and scope of the remedies available for patent holders, i.e. injunctive relief as well as damages awards.

Introduction

Around the globe, both politicians and business leaders continue to recognize the need of an effective protection of innovation and intellectual property. This is particularly true in developed countries like Japan, the US, or many countries in Europe. The wealth of these developed countries relies to a great extent on their innovation and on the innovator's ability to effectively protect their intellectual property. Protection of intellectual property such as patents is only possible if an efficient enforcement system is at the disposal of parties whose patents were infringed.

Germany, Japan and the US have made substantial efforts to develop an efficient system of patent enforcement and are currently the most important and arguably the most advanced jurisdictions and litigation venues when it comes to patent right enforcement. In Japan, the importance of strong patent rights was notably expressed by former Prime Minister Koizumi in February 2002, when he described Japan as an IP-based nation and initiated the enactment of the IP Basic Law in November 2002, leading, amongst other things, to the creation of the IP High Court in 2005.

This report will provide an in-depth examination and analysis of the current state of enforcement-related measures and remedies

available to patentees in Japan from the perspective of a German academic who is admitted as a lawyer in the US. The report will focus on local and international jurisdiction rules as well as on the key elements of enforcement procedure including the evidence collection process, border measures, warning letters, preliminary injunction proceedings and declaratory judgment actions. Finally, my research will explain requirements for and scope of the remedies available for patent holders, i.e. injunctive relief as well as damages awards.

I Jurisdiction

The Civil Procedure Code grants exclusive jurisdiction for patent infringement cases to the District Courts in Tokyo and Osaka. Notably in the field of patent law was the enactment of the Intellectual Property High Court, which was entrusted with all appeal cases in the areas of patent law and other intellectual property laws. The judges at the Intellectual Property High Court and at the intellectual property law divisions at the Tokyo and the Osaka District Court are supported by investigation officers (Saibansho chôsakan), who are predominantly responsible for the analysis of technical details and background, and by a pool of technical experts (Senmoniin). Technical experts are involved in infringement proceedings during

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evidence examination as well as during mediation discussions.

By creating special patent litigation venues and concentrating patent litigation at only two district courts which are in addition supported by technical experts, the Japanese legislator certainly achieved a higher degree of continuity and thus made patent litigation more reliable and predictable. At the same time, the Japanese judge rotation system, which obliges even senior judges to rotate between courts and legal areas every few years (the usual period to remain at one court is three years) countermines the concentration efforts made by the legislator, as judges who gained experience in patent litigation matters continue to be replaced by judges inexperienced in the area of patent law, who then again require some time to gain the level of experience their predecessors had.

II Costs

Patent infringement proceedings cause court and attorney's fees. While the court fees are in general to be borne by the party losing the trial, all other costs such as attorney's fees, travel costs, costs for experts' opinions etc. are to be borne by the party which commissioned such costs.

1 Court Fees

Court Fees are calculated based on the subject matter value. The subject matter value in infringement proceedings is computed pursuant to the value of the demanded injunction plus the demanded damage claim. Generally, the losing party has to cover the court fees.

2 Attorney's Fees

A substantial cost factor other than court fees are costs incurred by the parties for advice and representation by attorneys, patent attorneys as well as for preparation of expert opinions. Such costs will customarily have to be borne by each party.

Attorneys' and patent attorneys' fees are charged on a time base, i.e. per billable hour, or based on a representation fee agreed upon when commencing the lawsuit. Depending on the complexity of the issue, fixed representation fees frequently amount to 5 MN to 20 MM Yen. In extraordinary complex situations, representation fees of up to 50 MN Yen have been heard of. Also

in case of time-based representation it is rare that attorneys' and patent attorneys' fees will exceed 50 MN Yen. A survey conducted by the US law firm Finnegan resulted in average litigation costs of 150,000 USD (approximately 15 MN Yen) for representation in a patent infringement litigation case.

III Procedure

1 Evidence Collection

The plaintiff has to demonstrate infringement of a patent during the enforcement proceedings. One of the main objectives during the reform of the Japanese civil procedure system was to invigorate the evidence collection process. To enable potentially infringed parties to obtain a better assessment of their legal position prior to filing a lawsuit and to foster the preparations of infringement proceedings, the legislator created in the judicial reform of 2003 the instrument of "evidence collection prior to initiating a lawsuit." An evidence preservation system had already been introduced during earlier reforms.

(1) Evidence collection prior to initiating a lawsuit

To initiate the procedure of evidence collection prior to filing of the lawsuit, the potential plaintiff has to express his intent of filing a lawsuit to its adversary in writing pursuant to Article 132-2 CPC. The plaintiff needs to demonstrate the necessity of the requested information for the assessment and enforcement of its claim. However, the plaintiff cannot compel the adversary to supply any information requested pursuant to Article 132-2 CPC. If the adversary doesn't react or refuses to supply evidence, the plaintiff can at any time file a motion for evidence collection at a competent court pursuant to Article 132-4 CPC. If the court requests examination by a court-appointed officer pursuant to Article 132-4-1-4 CPC, it has to indicate the time and the location of the examination to the plaintiff and to the adversary. In general, both the plaintiff and the adversary are entitled to be present during the examination. Under certain conditions, the adversary can refuse to comply with the order or the request of the court, for example if such request would require disclosure of trade secrets. However, even if the adversary refuses to comply with the court's request without showing a valid reason, the current civil procedure law doesn't grant the

courts any mechanism to enforce their request.

(2) Evidence preservation

The evidence preservation procedure pursuant to Article 234 CPC is the strongest mechanism to seize evidence under Japanese civil procedure law. Evidence preservation can be ordered if the court is convinced that the existing circumstances could result in exacerbating the use of evidence if such evidence is not reviewed or secured before the beginning of the trial. In order to convince a court to order evidence preservation, a plaintiff has to show a likelihood of evidence being lost, damaged, modified or hidden. If such likelihood is not very high, application of the evidence preservation procedure is not deemed appropriate. Furthermore, the impact on the adversary is evaluated by the court looking at the proportionality of the evidence preservation. Thus, as the requirements for the application of evidence preservation are generally very high, it is very rare to see courts ordering evidence preservation, and basically never happens in the context of evidence collection for a patent infringement analysis. The practical difficulties still existing for patentees in collecting non-public evidence prior to initiating a lawsuit, especially in cases where a prior warning to the alleged patent infringer comes with a risk of loss or alteration of evidence, still remains as a significant barrier to an efficient patent enforcement procedure.

(3) Evidence collection after initiating lawsuit

(i) Obligation of document production pursuant Article 104-2 Patent Act

Article 104-2 Patent Act contains a general rule providing for the obligation of the defendant to contribute to the clarification of facts by submission of disputed products or by disclosing disputed processes. While Article 104-2 Patent Act also provides for the possibility to withhold the disclosure of information regarding the disputed facts, such withholding has to be sufficiently substantiated.

(ii) Court order

Following a motion of a party, the court can order the other party to submit information or disclose processes deemed relevant by the court for establishing infringement or for computation of damages pursuant to Article 105-1-1 Patent Act. Having said so, the addressee of such court order can refuse submission of information or disclosure of processes pursuant to Article 105-1-1 Patent Act if there is a valid reason for

refusal. Valid reasons for refusal of submission exist if the requested documents contain technical or other trade secrets, or if said documents were prepared exclusively for internal purposes.

(iii) In-camera proceedings

If the party in possession of evidence demanded by the court can demonstrate a valid reason against disclosure, the court has the option to examine such documents during an in-camera procedure pursuant to Article 105-1-2 Patent Act. During the in-camera proceedings the documents in questions are examined in a closed session, whereafter the court determines the relevancy of the document in question for proving infringement and balances such relevancy against the reasonable interest of non-disclosure asserted by the party. If the court acknowledges that the party requested to submit evidence has a valid reason of non-disclosure of specific information, it can issue a protective order (Himitsu hoji meirei) pursuant Article 105-4 Patent Act.

2 Border Measures

(1) Application period

To initiate border measures, the patentee has to complete an application for detention at the customs office. The application has to demonstrate the patentee's entitlement to use the patent and has to explain why the goods to be imported infringe the patent.

(2) Detention period

After detention and storing of the imported goods by the custom authorities, both the applicant and the importer are notified. The patentee can inspect the detained goods pursuant to Article 69-16-1, 2 Customs Act. The importer is notified of the patentee's application to inspect the detained goods, and can attend the inspection if desired. Both parties can request an opinion by the Commissioner of Japanese Patent Office. If an opinion by the Commissioner of JPO had been requested, the custom office usually follows such opinion. If the custom office determines that the goods are infringing a patent, it can order its destruction.

3 Warning Letter

(1) Practical significance

As Japanese entities were at least traditionally reported to be hesitant of court

litigation, it only seems logical that warning letters or other out-of court settlement approaches are an important factor in resolving disputes. Indeed sending warning letters to manufacturers and their customers is a common practice in Japanese patent disputes.

(2) Claims for wrongful warning letters

A wrongful warning letter sent to a manufacturer of allegedly infringing goods is generally not regarded as unlawful. Sending a wrongful warning letter to a manufacturer's customer alleging that the manufacturer's goods infringe upon the sender's patents and urging the customer to cease purchasing or trading the accused manufacturer's goods (kokuchi) can result in a damage claim by the manufacturer against the sender. In case of wrongful warning letter sent to customers, the sender of the warning letter has to demonstrate that he acted without negligence. Recent case law developed abstract criteria which could lead to an absence or at least a reduction of the degree of the tortfeasor's negligence.

4 Declaratory Judgment Action

The importance of the declaratory judgment action in the Japanese patent enforcement procedure system is somehow limited. It becomes mostly relevant in the context of border measures. If an importer files a declaratory judgment action after detention of the importer's goods by the custom authorities, the custom authorities tend to stay the detention until the declaratory judgment action is resolved.

5 Preliminary Injunction

Preliminary injunctions are generally considered an important instrument to enforce patents and other intellectual property rights.

A few years ago, court statistics and commentators showed an increase of the use of preliminary injunctions in patent enforcement, a tendency which was generally expected to continue. However, looking at more recent numbers, it seems that the number of preliminary injunctions sought has steadily decreased since 2002. One major reason for the decreased demand for preliminary injunctions can be seen in the considerable speed development of the main proceeding, which is currently almost as fast the preliminary proceeding. Furthermore, it seems convincing that the results of the Kilby-Decision¹

leading to a higher risk of patent invalidity decisions during the infringement proceeding were another cause in the reduced demand.

(1) Scope of preliminary injunction

The purpose of a preliminary injunction is to preserve the status quo. A preliminary injunction in a patent infringement context is typically directed to ensure that the defendant refrains from a certain conduct such as producing or distributing patent-infringing goods (Sashidome no Karishobun).

As it is impossible for the court to prepare expert opinion as well as to request submission of documents or other evidence during the course of preliminary proceedings, it is often difficult to show the prima-facie evidence of infringement required for a preliminary injunction. This is particularly true in the context of patent law, where the courts tend to demand a level of evidence corresponding to the level required in the main proceedings. Thus a preliminary injunction will only be realistic to expect in clear infringement constellations where a defendant committed literal infringement of the plaintiff's patent claims, the validity of the underlying patent is not in questions, no procedural complications are to be expected, and the plaintiff can demonstrate the infringement by referencing to the infringing product being in the plaintiff's possession.

(2) Requirement for preliminary injunction

Pursuant Article 23-2 Civil Preservation Act, a preliminary injunction requires showing of immediate harm or substantial damages. To show such requirement, the courts require the plaintiff to show the necessity (hi-tsu-yôsei) of the preliminary injunction, which has to be established by a balance of hardships between the plaintiff and the defendant. A showing of necessity is facilitated in cases of infringement likely to result in damages which would be difficult to compensate monetarily.

IV Remedies

1 Injunctive Relief

(1) Requirements

A claim for injunctive relief requires the showing of a currently present infringement or the likelihood of a future infringement. If the defendant committed an infringing conduct in the past and stopped such conduct before the plaintiff

initiated the enforcement proceeding, a likelihood of infringing conduct is assumed by courts if the defendant has the ability to resume the infringing conduct.

(2) Scope

The party entitled to a claim for injunctive relief can request the defendant to cease the infringing conduct (*kyôgi no sashitome seikyûken*) and to refrain from such conduct in the future (*yobô*). In addition, the plaintiff can request the defendant pursuant Article 100-2 Patent Act to destroy the equipment used to produce the patent-infringing goods. The claim for injunctive relief typically encompasses only the infringing conduct identified by the court. Accordingly, the injunction orders issued by the courts are usually concise and very specific. The patentee needs to enforce its patent again if the defendant only slightly modifies his conduct and nevertheless still infringes the same patent.

2 Damages

The patentee or the exclusive licensee can request from the infringer compensation of damages incurred as a consequence of the infringing conduct pursuant Article 709 Civil Code. The provision of Article 102 Patent Act serves to facilitate the computation of the damage claim

(1) Requirements

A damage claim pursuant to Article 709 Civil Code always requires fault, i.e. intend or negligence, by the tortfeasor. Article 103 Patent Act provides for a presumption of negligence by the infringer in case infringement is established. Accordingly, the infringer has to show the absence of negligence in order to avoid being held liable for damage claims. Has the court followed the plaintiff and found infringement, it will only in very exceptional cases deny all damage claims by finding an absence of any negligence. Pursuant to Article 102-4 Patent Act, courts can lower the damage award if the defendant shows a lower degree of negligence. Slight negligence might be considered e.g. in cases where the technical evaluation of the factual circumstances and thus the evaluation whether a conduct constitutes infringement or not would be extraordinarily difficult and complex.

(2) Scope of the damage claim

Article 102 Patent Act provides for three

methods of computing damages: (1) lost profits, (2) accounting for infringer's profit or (3) accounting for a reasonable royalty fee. It is fairly common that the plaintiff requests compensation pursuant to multiple calculations methods, and selects the method yielding the highest damage award. In practice, it is recommendable in many cases that the plaintiff requests compensation based upon lost profits, while requesting that court awards a damage award calculated pursuant to the reasonable royalty fee in case that such award would be higher than the lost profit.

3 Claim for Destruction

Usually the plaintiff will simultaneously request the court to issue an injunction order and to order destruction of the patent-infringing products. In addition, the plaintiff can request the court to issue an order for removal of materials and equipment which has been used for the production of the infringing products. Pursuant to current case law, the entire infringing product is in principle subject to the claim for destruction even if the infringing element within the product could be separated. Having said so, in case of larger equipment is found to be infringing, the courts usually examine whether the entire product is considered patent-infringing and has to be destroyed, or whether a patent-infringing part within the larger equipment can be localized, extracted and separately destroyed without requiring destruction of the entire equipment.

Conclusion

The Japanese patent enforcement system has been subject to numerous revisions in the last fifteen years. Amongst other procedural changes, the evidence collection process and the damage award calculation methods were fundamentally revised in order to strengthen the position of plaintiffs. The most obvious improvement of the patent enforcement system was the substantial reduction of the duration of enforcement proceedings. As a result, patent litigation, in particular the main proceedings, in Japan nowadays are amongst the fastest in the world.

Having said so, and taking into consideration the substantial procedural improvements achieved during the last years, the following suggestions remain as a conclusion of my report:

- (1) Expertise on the bench: All patent cases in Japan have to be brought at either the Tokyo District Court or the Osaka District Court.

From a standpoint of uniformity, such high degree of concentration is certainly an important factor supporting the predictability of patent cases. At the same time, the high degree of concentration of litigation prevents parties from conducting excessive forum shopping, which in some other leading jurisdictions has become a problem. However, the Japanese court system incorporates a strict rotation system, according to which judges are to relocate every three to five years. Such relocations are not only of geographical nature, but also affect the subject matters of cases over which judges preside. While such rotations system might be efficient in less specialized fields of law, it may be a disadvantage in patent litigation, a field in which judges have to make decisions on highly technical questions. Though being supported by a large group of investigation officers and technical experts, it will take a while until a newly-appointed judge will be at the level his or her predecessor who was after three years of exclusive exposure to patent litigation. Considering such exceptional position of the patent courts, it may be beneficial to implement exceptions to the rotation system for judges interested and devoted to patent law.

- (2) ‘Surprising’ evidence collection: While the evidence collection system has been subject to fundamental revisions in the last years, it is impossible to collect non-public evidence which is in the possession of the defendant without the defendant’s consent or a court order issued after a hearing. Especially in the case of infringement of process patents, onsite evidence collection is crucial for a determination of the facts. However, as such onsite inspection is practically impossible without giving prior notice, the defendant always has the opportunity to conceal certain steps of a production process prior to an inspection.

The two-tier inspection system, as it is practiced by leading patent courts in Germany, might – also in Japan – serve as a bridge between the plaintiff’s interest in collecting unmodified non-public information and the defendant’s interest in protecting non-public know-how and trade secrets. Under a two-tier inspection system, if a plaintiff can show a certain likelihood of infringement as well as the need to inspect non-public information such as a production

plant of the defendant in order to substantiate the infringement, the court can send a court-appointed specialist, who could be a member of the group of technical experts available to the courts, to the applicable facility of the defendant in order to inspect the production process in question. Such inspection could occur without prior notice to the defendant. Following the inspection, the expert would thereafter prepare a confidential report covering the inspected process, which would initially be available only to the court, and possibly to the plaintiff’s attorney, who however would at least initially be prohibited to share such confidential information with the plaintiff under a protective order. The court could review the report and determine whether the initial likelihood of infringement was substantiated by the evidence collected in the course of the inspection while maintaining the defendant’s interest in protecting trade secrets and non-public confidential information. If the inspection reveals an increased likelihood of infringement, an additional inspection of the defendant’s facilities, which then could be conducted in the presence of the plaintiff and his counsel, could be ordered for further fact finding.

- (3) Damage award calculation: Also in the area of damage calculation, substantial revisions were made in the last years. However, amongst the three calculation methods available to the plaintiff, the method of accounting for infringer’s profits is generally regarded as the least relevant method as the defendant can usually deduct not only cost of sales, but also part of its general and administration expenses from the revenue generated with infringing goods. It might be helpful if the courts could give more concise guidelines on what kind of expenses an infringing party should be able to deduct and what kind of expenses should generally not be deductible. Limiting the deductibility of expenses other than the cost of goods would make it more attractive for plaintiffs to seek compensation based on infringer’s profits.

¹ S. Ct. 54-4 Minshū (2000), pp. 1368 – „Kilby“