

5 Dispute Resolution Practices Concerning Patent Rights or the like^(*)

Regarding the practice of solving disputes over patent rights, utility model rights, and design rights (the “patent right or the like”) in Japan, there is data indicating that the number of intellectual property related lawsuits including patent infringement lawsuits in Japan is significantly lower than the number of such lawsuits in other countries and that the win rate of the patentees in patent infringement lawsuits is low in Japan in comparison with other countries. Some people have pointed out that these circumstances make the Japanese intellectual property systems difficult to use. There are various views regarding how Japanese companies solve disputes over patent rights or the like. However, no one has necessarily captured the overall picture of cases where the parties concerned solved the dispute without filing a lawsuit or where the parties concerned reached a settlement during a lawsuit. This research was conducted aiming to prepare basic materials for consideration of desirable ways of dispute resolution of patent right or the like for the future, by surveying the overall flow of actions taken by Japanese companies or the like starting from the time of occurrence of a dispute concerning a patent right or the like until the time of resolution thereof and thereby clarifying actual state of how such disputes have been resolved.

I Introduction

1 Background and purpose of this research

Regarding the practice of solving disputes over patent rights, utility model rights, and design rights (the “patent right, etc.”) in Japan, there is data indicating that the number of IP-related lawsuits including patent infringement lawsuits filed in Japan is significantly lower than the number of such lawsuits filed in other countries and that the win rate of the patentees in patent infringement lawsuits is low in Japan in comparison with other countries. Some people have pointed out that these circumstances make the Japanese IP systems difficult to use.

On the other hand, in view the facts that data indicates that half the lawsuits filed in Japan over patent rights, etc. are resolved through settlement and that, in those settled cases, the rate of settlement that is equivalent to winning a case from the viewpoint of the right holder is high, it has been pointed out that the win rate of right holders is not necessarily low in substance if such type of settlement is counted as a win. Furthermore, in Japan, the parties in a patent-related dispute where patent infringement is clearly recognizable tends to resolve the dispute through settlement before filing a lawsuit. Some people say that, since these cases may not be reflected in the litigation statistics, the win rate of the right holders merely appears to be low. Meanwhile, it may be considered that there are cases where the right

holders accept a settlement that is equivalent to losing a case from the viewpoint of the right holders for fear of suffering invalidation of their patent rights under Article 104-3 of the Patent Act or in an attempt to avoid invalidation of their patent rights, for which the JPO had made a decision of invalidation in a trial for invalidation.

Also, some people pointed out that a relatively small number of infringement lawsuits are filed in Japan because Japanese companies tend to avoid lawsuits for fear of a negative effect on the business relationships with other companies in the same industry and because of the risk of reputational damage, etc. as a result of the very fact of filing an infringement lawsuit, and because large companies have the capability and preference for settling patent-related disputes out of court.

As described above, there are various views regarding how Japanese companies solve disputes over patent rights, etc. However, no one has necessarily captured the overall picture of cases where the parties concerned solved the dispute without filing a lawsuit or where the parties concerned reached a settlement in a lawsuit.

In a report compiled by the Intellectual Property Committee of the Industrial Structure Council and also in the Intellectual Property Strategic Program 2014, further research and analysis are considered to be necessary in order to get a comprehensive understanding regarding how disputes on patent rights, etc. arise and get resolved.

This report studies the overall flow of actions taken by Japanese companies etc. starting

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from the time of occurrence of a dispute concerning a patent right, etc. until the time of resolution thereof and thereby clarifies how such a dispute is resolved.

2 Method of conducting this research

In this research, I conducted the following surveys in order to capture the entire picture of dispute resolution practices.

(1) Research on judgments and settlements

I conducted research on the lawsuits over infringement concerning patent rights, utility model rights and design rights (the “patent rights, etc.”) where district courts handed down judgments in the past 10 years and also on the appeals of those lawsuits where high courts handed down judgments in the past 10 years. Based on this research, I identified recent trends, etc. by carrying out a statistical analysis from various perspectives such as the perspective of (a) who were the parties of those infringement lawsuits concerning patent rights, etc. and (b) what types of judgments the courts handed down.

Thanks to the cooperation from the Administrative Affairs Bureau, General Secretariat of the Supreme Court, I was able to study the record of settlements and conducted similar research on patent/utility model infringement lawsuits that were ended by court settlement in the past three years.

(2) Research on publicly available information

I conducted research on publicly available information such as books, magazines, papers, various reports, databases, and online information that have been published in and outside Japan about civil cases and infringement lawsuits involving patent rights, etc. and also about the settlement system and the current state thereof.

I also conducted research on publicly available information on institutions established to provide alternative dispute resolution for disputes over patent rights, etc. in Japan from the perspective of the number of disputes handled by such institutions per year. I examined data about various arbitration/dispute resolution centers and found that the Japan Intellectual Property Arbitration Center is the only institution that has substantive experience in settling IP-related disputes. Thus, this institution is the only one covered by this research.

(3) Research on overseas information

I conducted a questionnaire survey on local law firms to ask questions about the civil lawsuits and infringement lawsuits over patent rights, etc. in the U.S., the U.K., Germany, China, and South Korea to gather information about the number of civil lawsuits, the number of infringement lawsuits over patent rights, etc., and the relevant background circumstances in the past three years or so. Based on the survey results, I made a comparison between Japan and each of those countries and analyzed the difference.

(4) Questionnaire survey and interview survey

I prepared a questionnaire containing questions that were selected based on, among other things, the result of domestic information searches, and sent the questionnaire to 1,124 survey subjects in order to understand why the parties to a dispute reached a settlement instead of filing a lawsuit or came to file a lawsuit after detecting infringement, sending warnings, and having negotiations or why they reached a settlement, etc. after filing a lawsuit. I carried out an analysis on the replies from 446 respondents. Separately, I conducted an interview survey concerning ten law firms and nine companies. In this way, I conducted a domestic questionnaire survey and a domestic interview survey.

II Summary

An analysis of the results of the aforementioned surveys gave me the following insights.

Until today, no researcher has revealed the overall picture as to how disputes over patent rights, etc. are resolved in Japan. This paper conducted a comprehensive examination of the dispute resolution practices in Japan. The overall understanding of such practices enabled me to identify the strengths of the Japanese patent litigation system and its weaknesses that need further studies.

1 Overall picture of dispute resolution practices

In this research, a statistical analysis of the content of judgments has revealed that 44% of the infringement lawsuits over patent rights, etc. that were filed with district courts ended with the rendering of a judgment, while 27% ended with court settlement.

On the other hand, in the United States, 89% of the cases reached a settlement after lawsuits

(2009).¹ This means that the tendency to choose settlement is much stronger than in Japan. Therefore, settlement is not unique to Japan and is one of the means of dispute resolution commonly used in other countries as well.

2 Strengths and weaknesses of the system

(1) Dispute resolution costs, judgment predictability, examination efficiency

Regarding judgment predictability, examination efficiency and dispute resolution costs in patent infringement lawsuits in Japan, the result of the questionnaire survey has revealed that right holders consider “dispute resolution costs” and “judgment predictability” as the first and second most important factors to take into consideration when determining whether to exercise their rights.

Regarding this point, in the interview survey conducted to further study the Japanese dispute resolution practices, many respondents replied that the level of judgment predictability in Japan is relatively high in comparison with other countries and that the Japanese system is excellent in terms of dispute resolution costs and examination efficiency as well, while some respondents replied that the level of judgment predictability is insufficient.

(2) Evidence gathering procedure

In civil lawsuits such as infringement lawsuits, it is necessary to provide evidence to prove any allegation (issue) disputed by either party. Therefore, it is important for each party to gather advantageous evidence. Currently, the court has the authority to order submission of documents under Article 105 of the Patent Act. However, if a suspected infringer alleges that there is no evidence concerning the issue, the court has no authority to force the suspected infringer to submit any documents. This is one of the problems that have been pointed out. In other words, the obligation to submit evidence is imposed on the patentee and the suspected infringer in an unbalanced manner.

In the interview survey, respondents suggested that a better means to gather evidence should be offered by establishing a system that is similar to the discovery system in the U.S. for example. On the other hand, a small number of respondents expressed hesitation about the idea of introducing a discovery system in Japan due to the risk of increasing court costs.

While it is important to improve the evidence gathering procedure from the

perspective of enhancing the functions of the Japanese patent litigation system, it is also important to carefully determine to what extent information disclosure should become mandatory. Further studies need to be conducted in consideration of the balance of interests between patentees and suspected infringers.

(3) Amount of damages

The amount of damages turned out to be low, i.e., less than 10 million yen, in about 39% of the patent infringement lawsuits filed in Japan (in about 26% of which the damages was five million yen or lower.). Such small damage awards is one of the reasons why the number of patent infringement lawsuits is relatively low in Japan.²

In this interview survey, some respondents pointed out that the amount of damages awarded in infringement lawsuits may not be evaluated in a uniform manner since patentees and suspected infringers have different perspectives, while many respondents replied that the amount of damages is low.

(4) Stability of rights

In the patent infringement lawsuits filed in Japan, a certain number of patents are invalidated due to a patent invalidity defense or a trial for patent invalidation. In this research, I studied judgments and found that the proportion of patents invalidated by lawsuits is 36% in terms of the number of judgments (if the total number of judgments is used as the denominator). Similarly, the proportion of patents invalidated in the U.S. Federal District Courts is 16% in 2013 in terms of the number of judgments. In 2013, the ratio of the number of cases where patents were invalidated to the total number of cases filed with district courts (the total of the number of judgments and settlements) is 23% in Japan and 2% in the U.S. This indicates that patent rights are less likely to be invalidated in the U.S. than in Japan.

In the questionnaire survey, 35% of the respondents replied that, if they are patentees, they will be likely to agree to a settlement for fear of having their patent rights, etc. invalidated. This indicates that the instability of patent rights is one of the reasons why patentees dare to choose settlement in Japan.

An examination of the current patent infringement litigation system from the perspective of patent stability reveals that Japan has adopted a so-called double track system, which allows litigants to dispute the validity or invalidity of patent rights on both tracks, i.e., a trial for patent

invalidation at the JPO and an infringement lawsuit at a court. Regarding this double track system, various opinions were presented in the interview survey. In particular, in the questionnaire survey, 4% of the respondents replied that it became easier for them to exercise their rights after the enforcement of Article 104-3 of the Patent Act (Provision concerning the patent invalidity defense), while 24% of the respondents said it became difficult for them to do so. This indicates that said provision might have affected patentees and suspected infringers in an unbalanced manner.

Regarding the capability of the authorities to determine the legitimacy of patent rights, etc., 42% of the respondents replied that it is reasonable for the JPO to determine the validity of patent rights, etc. from a technical viewpoint, while 8% of the respondents replied that it is not reasonable for the JPO to do so. On the other hand, 25% of the respondents replied that it is reasonable for a court to determine the validity of patent rights, etc. from a technical viewpoint, while 15% of the respondents replied that it is not reasonable for a court to do so. This indicates that the JPO is found to be more reliable. In the interview survey, many respondents including small and midsize companies, large companies, and law firms replied that a determination on an inventive step should be made by the relevant specialized agency, i.e., the JPO. These survey results suggest that, since the JPO is a specialized agency, its determinations on technical matters are considered to be relatively reliable. In order to further enhance the stability of patent rights, etc., it is necessary to pay attention to a balance between patentees and suspected infringers within the entire framework of the infringement litigation system and to make necessary adjustments to the current system such as redefining what functions the courts and the JPO should be authorized to perform respectively in order to allow them to perform functions that are appropriate for their respective roles.

3 Conclusion

In this research, I clarified an overall picture of the dispute resolution practices concerning patent rights, etc. and identified the strengths of the Japanese litigation system and its weaknesses that need further studies. For example, the Japanese system is highly praised for being superior to the corresponding systems in the U.S. and European countries in terms of judgment predictability, examination efficiency, and dispute resolution costs. Japan should widely distribute

information about the strengths of its system around the world. On the other hand, this research has revealed that further studies are needed to improve the system from the perspective of the stability of patent rights, etc., the amount of damages, and the procedure to gather evidence. In other words, the current treatment of patentees and suspected infringers is clearly unbalanced in all of these respects. In particular, in the interview survey covering small and midsize companies, the respondents expressed their concerns by saying that “it would be more advantageous to become a counterfeiter. We are not sure if we should continue making efforts to make inventions.” Without any alterations, the current system could discourage companies from obtaining patent rights, etc. and consequently cause small and midsize companies, which support the Japanese economy, to lose their enthusiasm to make innovations. As a result, it could hinder the creation of new industries. Therefore, it is very important to further improve the system from the perspectives of the stability of patent rights, etc., the amount of damages, and the procedure to gather evidence. In particular, it is essential to take a balance between the offensive means and the defensive means into consideration when creating a dispute resolution system. In the interview survey, regarding the offensive means available for patentees and the defensive means available for suspected infringers under the current system, only 5% of the respondents replied that the current system gives more advantage to patentees, whereas 34% of the respondents replied that it gives more advantage to suspected infringers. This indicates that the current system discourages patentees from exercising their rights.

As described above, it is extremely important to further promote the use of patent rights and accelerate the IP creation cycle in Japan by adjusting the balance between patentees and suspected infringers under the patent litigation system as a whole. More research should be conducted with a focus on the aforementioned issues that need further studies in consideration of the users' needs and the corresponding systems in other countries.

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¹ FY2013(Heisei25) JPO-commissioned research report on the issues related to the industrial property rights system on “Establishment and Operation of a Patent System Conducive to Patent Stability in Infringement Lawsuits”, p.61 (Japanese only)

² Supra note 1, p58-59