

Concerning the Patent System and the Operations Thereof that Contribute to the Activation of the Intellectual Property Dispute Resolution System (*)

The necessity of examination toward optimizing collection of evidence and determination of damages used in relation to intellectual property disputes in Japan was stated in the "Intellectual Property Strategic Program 2015," which was approved by the Intellectual Property Strategy Headquarters on June 19, 2015. This examination requires an understanding of the international trend as well as the status of use of the procedures for collection of evidence and the system for presumption of damages in Japan. To this end, it is necessary to conduct a survey on collection of evidence and determination of damages in relation to intellectual property disputes in foreign countries as well as the status of use and evaluation thereof. Moreover, it is also necessary to gain an understanding of the relevant systems used in relation to intellectual property disputes in Japan that would not be clearly mentioned in the text of judgments, such as the collection of evidence prior to filing an action, preservation of evidence, obligation to clarify the specific conditions of infringement, order to produce documents, protective order and the provision for presumption of damages as well as the status of use and evaluation thereof.

Therefore, the purpose of this research study is to carry out a survey on the national and international systems for collection of evidence and determination of damages as well as the status of use thereof, thereby preparing basic material which may be used in considering the activation of the intellectual property dispute resolution system.

I Introduction

1 Background to This Research Study

A decade since the establishment of the Intellectual Property High Court, which was one of the early achievements of the Intellectual Property Strategic Program, Japan's intellectual property dispute resolution system has received a certain amount of praise from the industrial world and IP practitioners. Yet, many people call for its improvement in usability and convenience¹. In Japan, prompt and accurate settlement of various kinds of dispute concerning intellectual property is the infrastructure for the creation of innovation using intellectual property. In the whole intellectual property system, the intellectual property dispute resolution system is becoming increasingly important in light of intellectual property strategies. Taking into full consideration that Japan is exposed to international competition among systems, now is the time to consider how Japan's intellectual property dispute resolution system should be developed.

In order to ensure appropriate trial in patent infringement lawsuits, ample evidence must be submitted by both plaintiffs and defendants. However, in many patent infringement lawsuits, most of the evidence tends to be found on the defendant's side instead of the plaintiff's, which makes it hard for right holders to prove infringement. The following three conditions make it hard to collect evidence: (i) proceedings to arrange issues, carried out at the beginning of a lawsuit, are not fully

functioning; (ii) the order to submit a document, an effective method to prove infringement by an alleged infringer, is not fully functioning; and (iii) the protective order system, a premise for collection of evidence for a lawsuit, is not fully functioning². Meanwhile, the system for collection of evidence has been improved by the revision of the Code of Civil Procedures and the Patent Act, and thus some argue that it has become possible to collect evidence in an appropriate manner based on the control of court proceedings by the court.

Accordingly, it is necessary to examine the procedures for collection of evidence by gaining a sufficient understanding of the actual conditions of the procedures for collection of evidence as well as the operations thereof.

While some argue that damages determined by Japanese courts have reached an appropriate level as a result of the successive revisions of the Patent Act, many others say that they still remain lower than the actual needs of businesses. Problems lie in that paragraph (1) of Article 102 of the Patent Act (presumption of damages, etc.) which was included with the aim of facilitating the act of showing proof has been little utilized, and that the idea used in applying the concept of the "contribution ratio," which is used to calculate and restrict damages as well as the calculation method thereof, has not been made clear. Moreover, with respect to the current concept of compensation based on the "actual damage" within the framework of the Civil Code, some point out that there is room for review from the standpoint of providing relief

(*) This is an English summary by the Institute of Intellectual Property based on the FY2015 JPO-commissioned research study report on the issues related to the industrial property rights system.

for damage caused by patent infringement by taking into account the investment in research and development required to materialize the patent³.

Accordingly, it is necessary to examine the system for damages in Japan by gaining an understanding of the system for damages in foreign countries as well as the actual conditions of businesses.

The necessity of examining the procedures for collection of evidence and the system for damages used in relation to intellectual property disputes in Japan was stated in the "Intellectual Property Strategic Program 2015," which was approved by the Intellectual Property Strategy Headquarters on June 19 of the previous year⁴. This examination requires an understanding of the international trend as well as the status of use of the procedures for collection of evidence and the system of presumption of damages in Japan. To this end, it is necessary to conduct a survey on the systems for collection of evidence and determination of damages in relation to intellectual property disputes in foreign countries as well as the status of use and evaluation thereof. Moreover, it is also necessary to gain an understanding of the relevant systems used in relation to intellectual property disputes in Japan that would not be clearly mentioned in the text of judgments such as the collection of evidence prior to filing an action, preservation of evidence, obligation to clarify the specific conditions of infringement, order to produce documents, protective order and the provision for presumption of damages as well as the status of use and evaluation thereof.

Therefore, the purpose of this research study is to carry out a survey on the national and international systems for collection of evidence and determination of damages as well as the status of use thereof, thereby preparing basic material which may be used in considering the activation of the intellectual property dispute resolution system.

2 Methods Used to Implement This Research Study

(1) Survey of Public Information (National and International Systems for the Procedures for Collection of Evidence and Determination of Damages, as well as the Status of Use Thereof)

By using books, papers, judicial precedents, research study reports, council reports, database information and Internet-based information, we surveyed, organized and analyzed the materials, etc. (including materials, etc. of foreign countries) related to the systems for collection of evidence and determination of damages, as well as the status of use thereof, with respect to six countries, i.e. Japan, the U.S., the U.K., Germany, France, China, and South Korea. In doing so, we focused on the items given

below.

Moreover, in order to understand the position of the systems for collection of evidence and determination of damages in the overall patent infringement lawsuits, the general flow of patent infringement lawsuits was surveyed and organized with respect to six countries, i.e. Japan, the U.S., the U.K., Germany, France, China, and South Korea.

<Focused items>

(i) System for Collection of Evidence

- * The discovery procedure of the U.S. and the state of discussions on the improvement thereof
- * The disclosure procedure of the U.K. and the status of use thereof
- * The inspection procedure of Germany and the status of use thereof
- * The system for collection of evidence in France and the status of use thereof
- * The systems for collection of evidence prior to filing an action, preservation of evidence, obligation to clarify the specific conditions of infringement, order to produce documents and protective order in Japan and the status of use thereof

(ii) Determination of Damages

- * Actual state of determination of damages in the U.S. and the state of discussions on the improvement thereof
- * Actual state of determination of damages in Europe (especially in the U.K., Germany and France)
- * Punitive damages systems in foreign countries and the state of discussions on introducing such system
- * Actual state of determination of damages in Japan (status of use of the provisions of the Patent Act for presumption of damages (Article 102, paragraphs (1) through (3) of the Patent Act))

(2) Domestic Questionnaire Survey (Status of Use, etc. of the Systems for Collection of Evidence and Determination of Damages in Japan)

We conducted a questionnaire survey on the collection of evidence and determination of damages targeting 1,104 domestic companies as well as 52 attorneys and patent attorneys that have experience in representing the parties in patent infringement lawsuit. The targets and question items of the questionnaire survey were examined from various standpoints and the following points were taken into consideration.

- * The questionnaire was devised to combine two kinds of questions, i.e. easy multiple-choice questions and open answer questions.
- * With respect to the contents of the questionnaire, the question items were decided and prepared for the domestic companies, attorneys and patent attorneys, respectively. Domestic companies were selected from

among those that have considered filing a lawsuit, in addition to those that have actually experienced patent infringement lawsuits. With respect to attorneys and patent attorneys, their duty of confidentiality was taken into consideration.

- * We added the purport and explanation of terms to the questionnaire and also ensured that the method to answer would be easy.

(3) Domestic Interview Survey (Status of Use, etc. of the Systems for Collection of Evidence and Determination of Damages in Japan)

We implemented a domestic interview survey targeting 21 persons from among those who were covered in the questionnaire survey mentioned in (2) above.

The domestic interview survey was conducted with an aim to further explore the issue based on the results of the survey of public information and domestic questionnaire survey. In addition, the selection of the interview targets and the contents of the interview were examined from various standpoints based on the results of the survey of public information, etc.

(4) Overseas Questionnaire Survey (Systems for Collection of Evidence and Determination of Damages in Foreign Countries and the Status of Use Thereof, etc.)

We sent a questionnaire to overseas companies that have experience in patent infringement lawsuits in the four countries, i.e. the U.S., the U.K., Germany and France (three companies for each country), as well as to the persons of local law firms, etc. who have represented many companies in patent infringement lawsuits in the abovementioned countries, etc. (three persons for each country) to conduct a survey on the systems for collection of evidence and determination of damages in each country and the status of use thereof, as well as the current situation of discussions on the systems of each country. Based on this questionnaire, we surveyed the actual conditions confirmed by the practical experience in patent infringement lawsuits.

The selection of the targets of the overseas questionnaire and the question items were examined based on various standpoints, and multiple types of questionnaire were prepared according to the attribution of the target.

The following points were taken into consideration in conducting the questionnaire survey.

- * Overseas questionnaire survey was conducted by taking into consideration the same points which had been taken into consideration in conducting the survey of public information and domestic questionnaire survey.

- * With respect to the questionnaire, the question items were decided and then prepared by translating them for each country and region of the target.

(5) Overseas Interview Survey (Systems for Collection of Evidence and Determination of Damages in Foreign Countries and the Status of Use Thereof, etc.)

The overseas interview survey was conducted targeting three persons from among the targets of the overseas questionnaire survey mentioned in (4) above, judges and former judges in the four countries, i.e. the U.S., the U.K., Germany and France.

The overseas interview survey was conducted with an aim to further explore the issue based on the results of the survey of public information and overseas questionnaire survey. In addition, the selection of the interview targets and the contents of the interview were examined from various standpoints based on the results of the survey of public information and overseas questionnaire survey.

(6) Summary

The following finding was obtained from the analysis based on the abovementioned survey.

The following understanding was obtained with respect to the systems for collection of evidence and determination of damages in intellectual property disputes in foreign countries and the status of use and evaluation thereof, as well as the systems for collection of evidence prior to filing an action, preservation of evidence, obligation to clarify the specific conditions of infringement, order to produce documents, protective order and the provision of presumption of damages in intellectual property disputes in Japan and the status of use and evaluation thereof.

II Domestic Survey

1 Collection of Evidence

The system to collect evidence prior to filing an action (Article 132-2, Article 132-3 and Article 132-4 of the Code of Civil Procedure) is hardly used. Many of the respondents answered that this was because the system requires prior notice but is not binding. At the same time, there were a number of respondents who were unaware of the system itself in the first place. In addition, there were more demands for enhancement and improvement of the system to collect evidence after filing a lawsuit than those for improvement of the system to collect evidence prior to filing a lawsuit.

The system for preservation of evidence (Article 234 of the Code of Civil Procedure) has also hardly been used for reasons such as the order being rarely issued by the court based on lack of necessity despite a petition being

filed, or because of doubts about the effectiveness of the order even if it were to be issued.

With respect to the obligation to clarify the specific conditions of infringement (Article 104-2 of the Patent Act), there were relatively many opinions stating that the system is functioning.

With respect to the order to produce documents (Article 105, paragraphs (1) and (2) of the Patent Act), while in many cases the order was not issued by the court despite a motion being filed, there were also a number of cases where the document was voluntarily produced through the control of court proceedings by the court. Some respondents appreciated the operations wherein the documents are produced voluntarily through the control of court proceedings by the court retaining the order to produce documents as the last resort while some suggested that the court should issue such order and the protective order in combination.

In-camera procedures (Article 105, paragraph (3) of the Patent Act) were hardly used: only 3 out of 27 attorneys with vast experience in intellectual property lawsuits and only 1 out of 158 companies that have experienced lawsuits or have considered filing a lawsuit had used this procedure.

The system for protective order (Article 105-4 of the Patent Act) was also hardly used: only 5 out of 27 attorneys with vast experience in intellectual property lawsuits and only 5 out of 158 companies that have experienced lawsuits or have considered filing a lawsuit had used the system. Many respondents answered that they felt strong resistance as the disclosing party to the obligation to include the relevant personnel of the counterparty company in the scope of persons eligible for inspection of trade secrets. On the other hand, there were many opinions stating that, as the party to inspect trade secrets, there are cases where the representative is unable to understand the contents, or, under a situation where a third party who has technical knowledge cannot inspect the trade secrets, it is necessary to have the trade secrets inspected by the person in charge in the company who is most capable of understanding the contents.

2 Determination of Damages

With respect to the determination of damages, while a relatively large number of patentees and attorneys raised their dissatisfaction with the results, the opinions of the alleged infringers were split into two: some were satisfied with the results while some were not. The point about which they felt greatest dissatisfaction was that the determination of the contribution ratio was either insufficient or unclear. There were some opinions wherein the respondent requested the court to stop using a contribution ratio determined based on unclear grounds, while suggesting that the contribution ratio should be used only in cases where a patent is granted for part of a

product (parts) or the product contains multiple patents, and that other elements should be clearly indicated as the grounds for loss of presumption in the judgment.

With respect to the provision of Article 102, paragraph (1) of the Patent Act, while many companies admitted that its application makes it easier to have a relatively high amount of damages be determined, there were also many companies that felt strong resistance against the disclosure of their profit margin, thus refraining from claiming damages pursuant to that paragraph.

In relation to Article 102, paragraph (3) of the Patent Act, at present, the royalty rate table published by the Japan Institute for Promoting Invention and Innovation is used as the basis. There were some opinions that since the data show average values, more ranges should be provided by narrowing down the scope of application. Based on such opinion, the respondents were asked if a database or guideline concerning the calculation of the royalty rate would be convenient for them. In response to this, many of the respondents answered that although they would find it convenient, it would be impossible to make such database or guideline since it would be necessary to subdivide the royalty rate for each industry and condition but such information would be difficult to collect in relation to the duty of confidentiality under a license agreement. In addition, many respondents suggested that half-hearted data or guidelines would rather have an adverse effect.

The system of expert witness for calculation (Article 105-2 of the Patent Act) had not experienced much use due to reasons such as the high expense, i.e. 3,000,000 to 4,000,000 yen: 4 out of 27 attorneys with vast experience in intellectual property lawsuits and 2 out of 158 companies that have experienced lawsuits or have considered filing a lawsuit had used the system. However, 3 out of 4 attorneys and 1 out of 2 companies that used the system were satisfied with the expert opinion and some of the respondents appreciated the system.

III Overseas Survey

1 The U.S.

(1) Collection of Evidence

The discovery procedure is a system for both parties to disclose information relevant to the lawsuit during the period from the filing of an action until the commencement of the trial.

Generally, the discovery procedure requires a cost of approximately 500,000 to 5,000,000 dollars and a period of about 1 to 2 years.

With respect to the discovery procedure, while some of the respondents had favorable opinions such as it being possible to collect information in large quantities, many respondents had negative opinions to the effect that: (i)

heavy burden (cost and time) is required; (ii) the system is used as a tool to force reconciliation; or (iii) the scope of discovery should be narrowed down.

(2) Determination of Damages

In the U.S., in many patent infringement lawsuits, the parties reach a settlement during the lawsuit, and there are few cases where damages is determined in a judgment.

Damages is calculated based on either the lost profits or reasonable royalty.

While it is legally possible to have the losing party bear the court costs, cases where the court actually ordered this to happen were not greater than 25% of the entire number of cases. In respect to this, many respondents answered that this practice should be carried out for those who conducted malicious activities but not for those who did not.

While punitive damages can be legally awarded up to a ceiling of three times the actual damages, cases where such amount was actually awarded were not greater than 50% of the entire number of cases. In this respect, many respondents answered that it is difficult to obtain an order for punitive damages.

With respect to the system for damages in general, while some respondents answered that fewer rules are allowing a flexible determination for each case, some respondents answered that the predictability of damages is low or that the system is causing a heavy burden (cost and time) with respect to the lawsuit.

2 The U.K.

(1) Collection of Evidence

The disclosure procedure is similar to the discovery procedure of the U.S; it is a system for both parties to disclose information relevant to the lawsuit. However, it is different in that the scope of disclosure is specifically designated at the time of the application and only the parts allowed by the court are subject to disclosure.

Generally, the disclosure procedure requires a cost of approximately 250,000 to 1,000,000 pound and a period of about a few months.

With respect to the disclosure procedure, while some respondents regard it as a costly system, many respondents answered that the burden is limited or that the scope of disclosure has become almost appropriate.

(2) Determination of Damages

In the patent infringement lawsuits in the U.K., determination of infringement and of amount of damages are made in two separate lawsuits. In many cases, the parties reach a settlement with respect to damages after the court has rendered a judgment finding infringement.

Damages is calculated based on either lost profits or reasonable royalty.

With respect to damages determined by the court, there were opinions stating that the amount is not sufficiently high and appropriate or that the predictability is low.

It is provided in laws that the losing party bears the court costs and approximately 60 to 80% of the actual costs are ordered to be paid. In respect to this, many respondents supported this practice or regarded it as effective to exclude patent trolls.

Punitive damages are not provided in laws. In respect to this, many respondents answered that they should be allowed only in exceptional cases and should not be overly punitive or that patent infringement lawsuits are economic issues and the infringer should not be punished beyond necessity.

With respect to the system of damages as a whole, while there were many respondents who answered that the court decision finding infringement is rendered in a prompt and inexpensive manner thanks to the practice of determining damages and the fact of infringement in separate lawsuits, there were also a number of respondents who answered that the determination of damages is frequently expensive and requires a long period of time.

3 Germany

(1) Collection of Evidence

The inspection procedure is a system to, mainly prior to the filing of an action, mandatorily collect evidence at the facility, etc. of the alleged infringer upon the demand of the patentee.

Generally, the inspection procedure requires a cost of approximately 50,000 to 250,000 euro and a period of about 6 to 12 months.

The inspection procedure is only used in about 5 to 10 % of all patent infringement lawsuits that are filed. This is due to reasons such as the patentee believing that the infringement activity may be proved by purchasing and conducting a survey on the infringing product that is sold in the market.

With respect to the inspection procedure, many respondents had favorable opinions such as: (i) the system makes a surprise attack on the alleged infringer; (ii) it is functioning well; (iii) demands are easily accepted; and (iv) mandatory collection is conducted promptly.

(2) Determination of Damages

In patent infringement lawsuits in Germany, as with the case in the U.K., determination of infringement and amount of damages are made in separate lawsuits, and the parties reach a settlement with respect to damages after the court has rendered a judgment finding infringement.

Damages is calculated based on either lost profits, profits earned by the infringer or reasonable royalty.

With respect to damages determined by the court, many respondents felt that damages calculated based on the license fee (this is because damages is often calculated based on the ordinary license fee) is slightly insufficient.

With respect to the practice of having the losing party bear the court costs, it is possible to have such party bear a certain amount of money prescribed by laws and in many cases, more than half of the attorney's costs is ordered to be paid. In respect to this, many respondents answered that a sufficient amount of costs is collected from the losing party and that this practice may serve as a deterrent to annoying lawsuits such as those filed by patent trolls.

Punitive damages are not awarded. With respect to this, many respondents were opposed to awarding punitive damages, stating that punitive damages are extreme punishment in the case of a standard infringement case.

With respect to the overall system of damages, while some considered it to be working well, some were of the opinion that more focus is placed on injunction in Germany, or that a long period of time is required until the court renders a judgment awarding damages.

4 France

(1) Collection of Evidence

The seizure procedure of France is similar to the inspection procedure of Germany; it is a system to mandatorily collect evidence at the facility of the alleged infringer upon the request of the patentee. However, the two procedures differ in that the seizure procedure has a longer history and the attorneys and judges are used to it.

Generally, the seizure procedure requires a cost of approximately 12,000 euro and a period of about a month.

The seizure procedure is used in about 80% of patent infringement lawsuits that are filed. This is because the seizure procedure has long been used and the collection is promptly implemented with the request being easily accepted.

With respect to the seizure procedure, many respondents answered that: (i) it is a powerful means both in a positive and negative way; (ii) it is working well; (iii) the request is easily accepted; and (iv) collection is promptly implemented.

(2) Determination of Damages

In patent infringement lawsuits in France, as with the case in the U.S., determination of infringement and damages are made in one lawsuit.

In calculating damages, the negative economic impact caused by the infringement (including the lost profits incurred by the victim), moral disadvantage caused to the victim, and profits earned by the infringer

(including the knowledge and material obtained by the infringer through the act of infringement as well as the profits from investment in sales promotion) are taken into consideration.

With respect to damages determined by the court, many respondents were of the opinion that the amount has nowadays become reasonably satisfactory or that the smaller amount of damages awarded in France is resulting in fewer lawsuits.

It is provided in laws that the losing party bears the court costs, and in many cases, more than half of the attorney's costs is ordered to be paid. While some regarded this practice as a balanced system, others were of the opinion that the costs borne by such party are lower than the actual costs sustained by the winning party.

Punitive damages are not awarded. With respect to this practice, while some thought that such damages should be allowed with respect to counterfeit products, many respondents were opposed to this idea and answered that such practice is incomprehensible based on the philosophy of the Civil Code or it is an issue to be dealt with in the penal code.

With respect to the system of damages as a whole, while some were of the opinion that the system is fair and should be maintained, others suggested that damages should be slightly increased and that, to that end, laws have already been provided but the judges are unprepared to apply the laws.

IV Conclusion

In patent infringement lawsuits, it is often the case for right holders to collect necessary evidence by conducting search themselves. Yet, it has become apparent that in cases, for example, where evidence relevant to the manufacturing process is held by the defendant, the right holders face difficulties in showing proof of the fact of infringement. This mainly arose for the following reasons: (i) the system for collection of evidence prior to filing an action is not functioning; and (ii) the system for order for production of documents, which is a powerful tool for showing proof of the fact of infringement by the alleged infringer, and the system for protective order, which serves as the basis for collection of evidence in lawsuits, are not sufficiently functioning. On the other hand, there were opinions stating that the low use rate of these kinds of systems do not necessarily mean that they are not functioning, but instead it would be sufficient if they are used as a last resort, and in the current situation where evidence is voluntarily submitted through the control of court proceedings thanks to these systems, the systems for order for production of documents or protective order are meaningful.

Moreover, with respect to the discovery procedure of the U.S., which is a powerful procedure to collect

evidence through obliging a party or a third party to submit evidence in response to the request of the other party, while some called for the introduction of such a system, the vast majority were opposed to such kind of system due to the cost and work hours. However, some demanded an enforceable procedure for collection of evidence wherein the alleged infringer would be obliged to submit sufficient evidence to prove that no infringement has been conducted to the extent of alleging non-infringement based on the condition that the patentee has shown proof to a "sufficient" level to allege infringement due to reasons such as, in cases where infringement is suspected to have been carried out within the plant of the other party, for example, business-to-business products or software that are difficult to obtain, it is particularly difficult for patentees to collect evidence or show proof of infringement. Meanwhile, there were also cautious opinions about enforceable procedures for the collection of evidence due to fear of the risk of abuse of such procedure by patent trolls, etc.

With respect to damages, while some respondents praised the fact that the amount is more appropriate as a result of the successive revisions of the Patent Act, there were opinions that damages determined by Japanese courts remains low. In addition, there were also some opinions stating that the amount so determined is appropriate in light of the scale of cases or that it is inappropriate to simply compare the amount with those determined in the U.S.

With respect to the provision for presumption of damages (Article 102 of the Patent Act), paragraph (1) of that Article which was included with an aim to facilitate the act of showing proof has not been utilized to a large extent, due to the obligation to disclose the company's profit margins. Moreover, many respondents showed their dissatisfaction with the system to the effect that, while damages has been restricted based on the concept of the "contribution ratio" that is used in calculating damages, the ideas for applying such concept as well as the method of calculation and the grounds therefor have not been made clear.

In Japan, intellectual property rights should be valued and used further in the future. Meanwhile, Japan's intellectual property dispute resolution system should be examined by taking into consideration the user needs and in light of overseas intellectual property dispute resolution systems, while maintaining a balanced intellectual property dispute resolution system so as to prevent the abuse of inappropriate rights.

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the experts with regard to intellectual property dispute" used in the first meeting of the task force for intellectual property dispute settlement under the Verification, Evaluation, and Planning Committee of the Intellectual Property Strategy Headquarters.

² See pages 2 to 5 of the "Report of the task force for intellectual property dispute settlement" under the Verification, Evaluation, and Planning Committee of the Intellectual Property Strategy Headquarters.

³ See pages 7 to 10 of the "Report of the task force for intellectual property dispute settlement" under the Verification, Evaluation, and Planning Committee of the Intellectual Property Strategy Headquarters.

⁴ See page 18 of the "Intellectual Property Strategy Program 2015," <http://www.kantei.go.jp/jp/singi/titeki2/kettei/chizaikei/kaku20150619.pdf>

¹ For example, see material No. 3 titled "Major opinions raised by