

Exploration of the Patent Prosecution and Patent Litigation System in Japan (*)

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This research will explore the patent prosecution and litigation system in Japan, involving the procedures of patent trials, appeals and litigation, aiming at investigating the rationale and efficiency of the patent prosecution system in Japan. It will also compare the patent prosecution system in the United States and Germany. The methodology of the research will include analysis of the patent law systems, literature review, interviews, and collection of the statistical data and relevant cases. Its conclusion can help understand the patent prosecution and litigation system in Japan and its experience could be useful for China to modify its patent prosecution and litigation system, including the patent court system.

I. Introduction: background, the issues and methodology

Patent prosecution and litigation remain critical procedures within the patent law. How to deal with the issues of patent prosecution and patent litigation has always been one important aspect for a patent system to maintain its fairness and efficiency. Though each country may have its unique patent law history and institutional arrangement, however, from perspective of comparative study, exploration of the patent prosecution and litigation system in Japan which is also a Civil Law country may discover institutional mechanism that may be helpful for China to reshape its patent prosecution and litigation system.

For this purpose, this research will explore the patent prosecution and litigation system in Japan, including mainly, (1) the procedures including patent application, opposition, appeal and trial, and the relevant litigation, (2) the organizations including the Japan Patent Office (JPO) and the specific intellectual property (IP) courts, (3) the Kilby decision and the legislation of Article 104-3 of the Patent Act of Japan and their implications, (4) the double-track invalidation of patent at JPO and before the IP courts, and (5) statistical analysis of potential negative effects caused by the invalidation defense. Comparison with the US will also be presented. The final part is conclusion and recommendations for China to improve its patent prosecution and litigation system.

The methodology of the research will include mainly (1) analysis of the patent system in Japan, (2) literature review, (3) interviews with administrative judges at the Trial and Appeal

(*) This is a summary of the report published under the 2016FY Industrial Property Research Promotion Project entrusted by the Japan Patent Office.

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Department of JPO and judges at the (Tokyo) Intellectual Property High Court (IPHC), (4) collection and analysis of statistical data from various resources regarding patent applications, patents in force, PCT applications, patent or IP lawsuits, among others, and (5) comparison of the relevant data of patent prosecution and litigation between Japan and the US.

II. Justification of the key role of patent prosecution and litigation processes in patent law

Patent prosecution and litigation refer to the processes of patent application, examination and the possible opposition and invalidation, and the consequent possible patent litigation on the issues in patent prosecution or patent infringement. Patent prosecution concerns essentially interactions between patent applicants and patent office regarding whether to grant a patent for an invention or to invalidate a granted patent; and patent litigation concerns mainly judicial review of administrative decisions in patent prosecution and remedies for patent infringement.

Any legal system shall be efficient and fair, so is the patent prosecution and litigation system. Efficiency concerns how quickly a patent applicant can get a patent grant for his patent application, and in case of his patent being challenged or being infringed, how long that dispute will be solved judicially. Meanwhile, fairness or justice shall be maintained by the patent prosecution and litigation system, or it may ruin the basis of patent law and let the system run to a wrong direction, and it is closely related with efficiency. Fairness of the patent prosecution and litigation system can be maintained and sustained by the corresponding legislation, administration and judicial activities in the field of patent law and others, including civil procedure law and administrative procedure law.

Fairness and efficiency of the patent prosecution and litigation concern both procedural and substantive issues in patent law, and relate to both administrative and judicial proceedings. In Japan, decisions of the JPO are judicially regarded as being of quasi-judicial nature due to its “quasi-judicial proceedings with a high level of fairness similar to that required in judicial proceedings”, and based on this reason and the specialized technical knowledge possessed by the JPO, the lawsuit against the appeal or trial decisions of JPO is instituted directly to the IPHC by omitting the district court level.¹

¹ See General Secretariat of the Supreme Court of Japan, *Intellectual Property High Court*, September 2015.

III. Investigation of the patent prosecution and litigation system in Japan

1. Evolution of the patent law and the IP court system in Japan

At the present stage, procedures of patent prosecution and litigation in the patent law of Japan are quite complicated. These procedures of patent prosecution and litigation in the patent law of Japan have been evolving in a long time. The IP court system in Japan has a history of more than 60 years. In 2005, the IPHC was established as a “special branch” within the Tokyo High Court. At district court level, in 2004, the Tokyo District Court and Osaka District Court were empowered exclusive jurisdiction over patent cases and other technology related IP cases in the eastern and western area of Japan, respectively. Meanwhile, these two district courts have non-exclusive jurisdiction over non-technology related IP cases.

2. Technical expert system with the IP courts

The industry in Japan has three major concerns for the IPHC: speedy trials, trials with more expertise, and unified judicial decision in early stage such as on a high court level. The issue of expertise has been well resolved with help from the technical expert system. There have two kinds of technical expert systems with the IP courts in Japan: research officials as staffs of the IP courts, and the technical expert advisors (commissioners) as part-time staffs of the IP courts. The explanations of the technical experts can be of critical importance for the panel to learn the technical background and the advantage of the involved patent in comparison with the prior art. By presenting a whole picture of the patent, the technical experts can help the IP courts to overcome the technical barriers that may exist between judges as legal experts and the technical issues. With this technical aid, judges in the IP courts can be more confident to give a judgment with fair and justice. The technical expert system is a unique system in the patent prosecution and litigation system in Japan.

3. The quasi-judicial nature of JPO decision and its judicial remedies

Though the decisions of JPO are made by an administrative organization, they are deemed either theoretically or judicially as quasi-judicial decisions: “A trial decision is equivalent to the judgment in a court action.”² Litigation against a trial decision of JPO is an administrative lawsuit.

² Nobuhiro Nakayama, *Patent Law*, 2nd ed., Koubundo, 2012, p. 269.

In lawsuits against JPO decisions, the central issue for the IPHC is to judge whether the trial decision is legal or illegal according to the Patent Act and other applicable laws. Due to separation of the power, the court does not have authority to reverse the administrative decision of JPO and render a new decision judicially such as claiming invalidity of the involved patent even if it find the trial decision was illegal or groundless; instead, the IPHC can only rescind the JPO decision and require it to make a new decision. Comparatively, the IPHC has been playing a central and critical role in the enforcement of patent law in Japan, a role similar to that of the CAFC in the US.

4. A procedural impasse for patent prosecution and litigation

As a Civil Law country, the patent law in Japan has maintained basically a dualism in which the JPO is responsible for patent examination, registration, opposition, and invalidation, among others, while the IP courts are responsible for handling judicial issues such as hearing patent infringement cases and judicial remedies for decisions of the JPO. If a party, including an accused infringer, wants to challenge validity of a patent, it needs to institute a trial of invalidation with the JPO, he could not challenge validity of an involved patent in a single judicial procedure such as a lawsuit on infringement of the involved patent. This institutional arrangement obviously runs contrary to judicial economy. In regards to patent invalidation, the administrative procedure and judicial procedure are parallel to each other, and the issues cannot be handled in a single and unified process that may save costs of the involved parties and the administrative and judicial resources as well.

IV. Rationale and efficiency of the patent prosecution and litigation system in Japan

1. Efficiency of the patent prosecution and litigation system in Japan

During the past half century, JPO has remained one of the leading patent offices in the world. It can be proved easily that JPO has a high efficiency, remaining one of the top 3 patent offices worldwide. The IP courts in Japan also have a high efficiency. Such high efficiency has been achieved by enforcement of the patent prosecution and litigation system in Japan.

2. The Kilby decision

In the Kilby case in 2000, the Supreme Court issued its decision, holding that if a patent is apparently invalid, the patentee may not be supported by court to claim injunction and damages against the defendant because it is a kind of abuse of right. An “apparent invalidity defense” was thus initiated.³ While incurring lots of criticisms, the Kilby decision has meanwhile received high praise from the IP academia and judges. It is reasonable and equitable, for it can give solution to the conflicts at one time and does not need to incur both administrative and judicial procedures, and expedite the patent infringement litigation. It can save procedures of patent prosecution and litigation and contribute to judicial economy of patent litigation, and it can hopefully overcome the intrinsic barrier within the patent law system in a Civil Law country. It can be said that the Kilby decision initiated a new era for the patent law system in Japan. It could be deemed a truly meaningful milestone case along the patent law history in Japan.

3. Legislation of Article 104-3 of the Patent Act

After the Kilby decision of the Supreme Court, the invalidation defense was legislated into Article 104-3(1) of the Patent Act in 2004. It is in general more attractive for a defendant in patent infringement lawsuits to claim defense of invalidation according to Article 104-3 than by following the Kilby decision, because the court does not need to consider whether an involve patent can be invalidated “apparently”. Article 104-3 “...authorized a court to decide validity of a patent in infringement lawsuits for total and single-round resolution of patent disputes. It does not request the accused infringer to make an invalidation petition to the JPO.”⁴ The invalidation defense can ensure procedural economy for patent infringement lawsuits, and help save administrative, judicial and other social resources.

4. Double-track invalidation: advantages and disadvantages

Since the Kilby decision and legislation of Article 104-3 of the Patent Act, there developed a double-track system for patent invalidation in Japan that may help increase efficiency of the patent prosecution and litigation. Administratively, on one hand, a person may institute a trial of invalidation of a patent with JPO; judicially, on the other, if he was involved in a patent

³ See Ryuichi Shitara, “A New Trend in IP Litigation”, speaking at the PanEuropean Intellectual Property Summit: Brussels IP 2006, December 2006, at http://www.ip.courts.go.jp/eng/vcms_lf/061207_02.pdf (Note: all the websites cited by this report was last accessed on September 30, 2016 and this will not be attached hereinafter).

⁴ *Ibid.*

infringement lawsuit, he may select to allege an invalidation defense. Regarding its potential advantages, the invalidation defense is argued to be construed “to aim to solve disputes on infringement of patent rights within the procedures for patent infringement suits to the greatest possible extent, thereby achieving prompt solution to such disputes”, and “to prevent a delay in court proceedings that would occur when the court conducts examination and determination on an allegation of invalidity”, whether allegation or counter-allegation of invalidity of a patent.⁵ However, it is argued that the invalidation defense may have disadvantages, too, such as placing more burdens on the patent right holders and there may have contradiction between the JPO and the IP courts, and it may even deteriorate the legal stability and reliability of the patent system.⁶ However, these aspects may not well justified. If taking into consideration of all the aspects the invalidation defense may have brought to the patent law system in Japan, it can be said the double-track invalidation system had essentially initiated a new era for the patent law of Japan.

5. The debated issues

When a legal system is evaluated, generally people need to see whether it is fair and efficient. Efficiency is easier to describe or compare, such as that of JPO and the IP courts in Japan. Comparatively, fairness or justice of a system is rather difficult to argue or justify. For invalidation defense, there are basically two kinds of points of view, i.e., for it or against it. With the invalidation defense, the court can settle the patent disputes more confidently and appropriately with better and speedy solution in a way possibly benefit all parties. However, those criticizing the invalidation defense deemed that after the Kilby decision, the winning rate of patentees in patent infringement litigation was as low as 20%, and there had less patent infringement lawsuits since 2000.⁷ Judge Shitara observed the reported low winning rate of about 25% of patent right holders may be misleading because it overlooked those settled between parties without judgment of the IP courts. Furthermore, effective proceedings and appropriate judgments are more important than a simple winning rate for patent right holders.⁸ The central debated issue regarding invalidation defense is whether this mechanism had promoted the patent system in Japan or become a barrier to the patent system or the industry in the past decade?

⁵ Sumiko Sekine, “Allegation of Patent Invalidity in Patent Infringement Litigation”, April 2009, at http://www.ip.courts.go.jp/eng/vcms_lf/090415_1.pdf.

⁶ See Makiko Takabe, “The measure to harmonize patent trial and litigation in Japan”, May 2016, at http://www.ip.courts.go.jp/eng/vcms_lf/harmonization_TAKABE.pdf

⁷ See, e.g., “Establishment and Operation of a Patent System Conducive to Patent Stability in Infringement Lawsuits”, *IIP Bulletin*, 2014, Vol.23, pp.48-55.

⁸ See Ryuichi Shitara, “Intellectual Property Litigations in Japan and IP High Court”, February 2015, at http://www.ip.courts.go.jp/eng/vcms_lf/150226_rikadai.pdf.

6. Statistical analysis of possible negative influence caused by the invalidation defense

Regarding the role of invalidation defense, it may be applicable to use IP indicators to illustrate: Whether patenting activities in Japan had been held back? Whether patenting activities and the related receipt of charge for IP use by Japanese companies became less competitive? Whether there had a trend of less IP lawsuits and can they sustain a functional patent system in Japan?

(1) Domestic: the trend of patent applications and patents in force at JPO

It is observed, since 2001, there did have a trend of decreasing in patent application with JPO, and this trend of decreasing correlates clearly with the trend of resident patent applications, but not that of the non-resident patent applications which have been remaining at a same or even a slightly higher level. This may have paradoxical explanations: if domestic patent applicants in Japan had been discouraged by the Kilby decision or Article 104-3 of the Patent Act, their sentiment had not been shared by the foreign patent applicants; and, if the resident applicants of Japan remained as reasonable as the non-residents, ignoring of the possible influence of invalidation defense on patent application, then the decreasing of resident patent applications may have alternative reasons. In addition, the patent in force had manifested a trend of steady increasing in the past decade (2004-2014). This may indicate a trend of increasing of control and competitiveness in domestic market in Japan.⁹

(2) International: PCT applications, patent families and others

According to the data of WIPO, in 1996-2014, the number of PCT applications filed by the residents of Japan had been in a trend of increasing. Additionally, during roughly the past decade (2005-2013), it is observed that the PCT national phase entries filed by the residents of Japan had been increasing steadily, second only to the US, and much higher than those of Germany, France, Switzerland and others.¹⁰ At international dimension, in 1996-2012, the number of patent families owned by the residents of Japan had been in a trend of increasing. According to the data of the World Bank, in 1996-2014, the receipt of charge for IP use by the residents of Japan was in a trend of increasing, second only to the US. Moreover, there observed obvious correlations between the PCT applications, the patent families, and receipt of charge for IP use, of or owned by the residents of Japan. These trends and their mutual correlations may indicate that the increasing global

⁹ WIPO, *World Intellectual Property Indicators* (2015), WIPO Publication No. 941E, p. 51.

¹⁰ WIPO, *Patent Cooperation Treaty Yearly Review* (2015), WIPO Publication No. 901E/2015, p. 53.

competitiveness of Japan had not been expectedly influenced or held back by the invalidation defense since 2000.

(3) The trend of civil patent cases filed before the IP courts

It is observed that the number of civil patent cases filed before all the district courts in Japan remained comparatively few during 1990-2015, roughly between 100~220 a year. For civil IP appeal cases filed before IPHC (before 2005, it was the Tokyo High Court), during 2005-2015, there observed no trend of decreasing of IP lawsuits as second instance. For the number of lawsuits against JPO filed before the IPHC, however, it did experience a trend of decreasing during the period. It may be reasonable to say, in the past two decades or so, though there had few civil patent cases (about 120-220 a year) in all the district courts, and even less civil patent appeal cases in the IPHC, the judicial patent law system has been efficient and competent to help sustain the increasing millions of patents in force in Japan. Based on the statistical data and observations, it can be argued that in the past decade, there had no less competitiveness of the industry of Japan, whether domestically or internationally.

V. Comparison of the patent prosecution and litigation systems in Japan, the US and Germany

Relevant data may imply that the JPO is at the same level with the USPTO, and the patenting activity in Japan is almost as active as those in the US. However, it was observed that in the past decade (2006-2015), the number of lawsuits against decisions of the JPO and the USPTO filed before the IPHC and the CAFC, respectively, are in sharp contrast. Regarding patent infringement lawsuits, it was observed that the number of civil patent lawsuits in Japan remained extremely fewer than those in the US, whether for the first instance or the second instance. These trends are interesting and the underlying reasons may deserve further exploration.

Believably, the patent system in Japan has been a successful one that can support well the industry, trade and economy of Japan by promoting innovation and commercialization, as indicated by the success of the many transnational companies originated in Japan. Judicially, in the US, in contrast to the general impression that patentees are more like to be supported before a federal court in the US, researchers found that during 2009-2013, the winning rate of patentees in the federal courts of the US had been remained 26%, seemingly at the same level as that in Japan.

VI. Conclusion and recommendation: experience and lessons for China

Based on the observations and justification in the several parts above, it can be said the patent prosecution and litigation system in Japan has the following features. Firstly, its historical evolution in the 20th/21st century has been a slow process in a long time. Secondly, the patent prosecution and litigation system has been well supplied by other laws, such as the Code of Civil Procedure. Thirdly, there is a double-track system for patent invalidation before the JPO and the IP courts, respectively. Fourthly, the IP court system, supplied by the judicial research officials and technical advisors, has been well designed by taking into consideration of the features of patent practice in Japan. Fifthly, the IPHC has been playing a central and critical role in the enforcement of patent law in Japan, similar to that of the CAFC in the US. Sixthly, there have roughly 200 civil patent lawsuits each year before the IP district courts in Japan, together with even fewer civil patent appeal cases before the IPHC, while the judicial IP or patent system can help sustain the patent prosecution and litigation system and in general the patent law system in Japan. Finally, the most important feature regarding patent prosecution and litigation system in Japan is the invalidation defense realized by the Kilby decision in 2000 and Article 104-3 of the Patent Act. It could be deemed an important creation along the patent law history of Japan in the 21st century.

For recommendations, China may need to consider whether to introduce the invalidation defense in proceedings of patent infringement litigation to solve the issues of procedural redundancy, patent litigation cycle and others. Within the procedure for patent infringement, an IP court may not need to sustain the proceedings to wait for a decision on patent invalidity from the Patent Review Board under the State Intellectual Property Office (SIPO) in China. The experience of the IP court system in Japan also has meaningful implications for China to establish its IP or patent court system.