Procedural Approach on Incontestability Clause*

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In the case of concluding a license agreement, the parties often have an incontestability clause (no-challenge agreement). This has been argued to be a problem of competitive order in the market due to the distribution of patents that should not be granted (competitive law approach). This is the general theory. However, given this theory, the effect is that the licensee cannot file a request for a trial for patent invalidation nor assert defense of patent invalidity in infringement litigation. This is the effect on civil procedural law. Under the substantive law, it is thought that a contract between parties should be affirmed as much as possible from the principle of freedom of contract. But under the procedural law, prohibition of the conventional process by parties is general applied. It is also essential to consider the legality of the incontestability clause to determine whether it is recognized as an exception. Therefore, I attempted to research incontestability of patents from the viewpoint of procedural law, while conducting a comparative legal study of Japanese and German law (procedural law approach).

I. Background and purpose of this research

Traditionally, the validity of incontestability clauses in license agreements has been discussed from the substantive law viewpoint of whether the incontestability clause should be restricted under competition law as an exception to the principle of freedom of contract. However, the parties usually intend that the effect of the incontestability is to prevent the filing of an opposition or invalidation trial, or to prevent the assertion of a defense of invalidity in an infringement suit. Therefore, it is essential to consider the incontestability clause from the perspective of procedural law, as an issue of procedural law contract or similar contract in proceedings, which is the final stage of contesting the validity of a patent, and whether filings and assertions can be limited by agreement of the parties. In particular, the effect of a licensee being barred from filing a lawsuit (filing of an opposition or invalidation trial) not only means a prior abandonment of judicial remedies, but may even undermine the significance of having a trial as a dispute resolution system.

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As an aside, procedural contracts in which the parties attempt to regulate litigation by agreement in writing are not uncommon, but when there is no such inclusion in writing, they have traditionally been discussed as "unwritten procedural contracts." Since prohibition of the conventional process is appropriate here, in order for unwritten procedural contracts to be recognized as an exception to the prohibition, the agreement must be a matter within the free will of the parties. However, because revoking a defective patent is in the public interest, it is necessary to consider from a procedural law viewpoint whether an incontestability clause that prohibits disputing the validity of a patent is legal.

II. Incontestability in Japan

1. Ways to challenge the validity of a patent

The ways to challenge the validity of a patent can be roughly divided into administrative disputes and civil litigation. The former are opposition proceedings and trial for invalidation proceedings (Muko-Shinpan), and the latter are the defense of invalidity in infringement suits.

Opposition refers to administrative action to extinguish a defective patent right retroactively to the time of patent application. It is similar to a trial for invalidation in that it extinguishes a patent that has already been granted retroactively and externally. However, the difference is that a trial for invalidation is expected to function as dispute resolution between the patentee and a third party, while opposition is expected to be a simple and swift review of the patent disposition by a third party from the perspective of public interest. As a result, an opposition can be instituted by any person without having any interest in the patentee. Although the proceedings are limited to the claims alleged, the ex officio detection principle allows for proceedings on grounds not alleged by the patentee, opponent or intervenor. An opposition cannot be withdrawn after a notice of reasons for revocation has been given because there is a high probability that the patent was defective.

Trial for invalidation is procedure to extinguish a defective patent right retroactively, and is regarded as a request for re-examination made by a person who is disadvantaged by the existence of a defective patent. In other words, a third party who has an interest in the matter files a request for a trial in order to resolve a dispute with the patentee. In the trial proceedings, an adversary system similar to that of civil litigation is adopted, and many provisions of the Civil Procedure Law are applied mutatis mutandis. Evidence is examined upon the objections of the parties or intervenors. However, ex officio examination of evidence and preservation of evidence are also possible, and confessions are not binding, but ex officio examination is possible, and reasons not pleaded by the parties can be heard.

Furthermore, as a defense, the invalidity of a patent right, which is an issue of first refusal in

infringement litigation, can be asserted (Article 104-3 of the Patent Act). It is called "defense of restriction on exercise of rights of patentee, etc."

2. Incontestability

The question is whether it would be against the rule of faith for a licensee to dispute the validity of a patent right, even though the licensee has benefited from the assumption that the patent right is valid from the licensor by contract. General theories and precedents deny this[1]. Since a licensee concludes a contract in the belief that the patent right is valid in most cases, it would be too severe to make him/her continue to pay the license fee on the assumption that the patent is valid even when grounds for invalidation were found at a later date. Moreover, it cannot be said that they expressed their intention not to dispute the validity of the patent right simply by concluding the license agreement.

However, it is possible to establish an incontestability clause, and it is possible to impose incontestability through this clause. Even if the licensee is prevented from requesting a trial for invalidation, etc., that does not necessarily mean that the patent will no longer be attacked by anyone, and therefore, interpreting the incontestability clause as a valid clause does not immediately damage the interests of the public. Although the principle of freedom of contract requires a conflict with mandatory law to be denied its effect, imposing incontestability by contract does not, in principle, constitute a conflict with public order and good morals strong enough to invalidate it. This clause will have the effect of facilitating the conclusion of license agreements and promoting the use of patent rights. "Guidelines for the Use of Intellectual Property under the Antimonopoly Law " (2007) is also positive in principle.

III. Incontestability in Germany

1. Ways to challenge the validity of a patent

In Germany, opposition to patent and action for revocation of a patent are ways to challenge the validity of a patent[2].

An opposition to patent is filed with the German Patent and Trademark Office ("Das Deutsche Patent- und Markenamt") when a third party believes that a patent granted by the German Patent and Trademark Office does not fulfill its requirements. This opposition can be filed by anyone. Since those proceedings are not court proceedings, but administrative proceedings following the granting proceedings to review the validity of the granting of a patent, the opponent

[1] *N. Nakayama*, Patent Act [4 th. Ed.], 2019, pp.539.
[2] Headicke/Timmann/*Landy/Harbmeier*, Handbuch des Patentrechts [2th. ed], 2020, pp.539.

and the patentee are not parties to the proceedings, but merely stand in the status of participants. Therefore, the purpose of an opposition is to provide a technical level that third parties may consider as an obstacle to the granting of a patent with the German Patent and Trademark Office. The scope of the proceedings is determined by the opponent, but the proceedings are based on the ex officio detection principle. The Patent Division is not obliged to hear all possible grounds for opposition spontaneously, but may hear the grounds that it considers important, as well as the scope pleaded in the opposition.

An action for revocation is heard by the invalidity division of the Federal Patent Court ("Bundespatentgericht"), and is raised with the aim of obtaining a formative judgment that the patent is retroactively and externally invalid. Since this action is a people's action, anyone can file an action against the patentee. In other words, the proceedings are based on an adversary system, which is clearly separate from the opposition proceedings. The Federal Patent Court is also not bound by previous decisions in German or European opposition proceedings. Because of the principle of disposition ("Dispositionsmaxime"), the parties must determine the subject matter of the action for revocation. The Federal Patent Court hears the case on the basis of the ex officio principle and clarifies the facts. It is not bound by the pleadings or offers of proof of the parties.

In Germany, the defense of invalidity in infringement litigation is not recognized.

2. Incontestability

In Germany, it is also possible to impose incontestability by contract, and this can be imposed even after an action for revocation has been filed[3]. Incontestability prevents a plaintiff who files an action for revocation from proceeding. It has been followed up by precedents. Whether there is a clear agreement or not, when the contract existing between the parties establishes a relationship of trust, an action for revocation as an illegal enforcement is illegally dismissed.

However, even though incontestability in license agreements was considered legal in the past, it is now a violation of Article 101 of the Treaty on the Functioning of the European Union in principle. This has been approved and embodied by the "Technology Transfer Block Exemption Regulation" and the guidelines of the Regulation. An incontestability clause in a license agreement is not an exemption, and it is stipulated that it violates the anti-monopoly law. This is because it would be in the public interest to avoid and revoke invalid patent rights.

[3] *Mes*, Patentgesetz (5th. ed.), 2020, § 59 nr.33ff.

IV. Procedural contract

In civil procedure, the principle of prohibition of the conventional process is appropriate, but in exceptional cases, "unwritten procedural contracts" are allowed[4]. In the procedural law, the free disposition of parties is allowed in matters where the principle of disposition and the pleadings principle ("Verhandlungsmaxime") are appropriate. Since the decision on whether or not to take a certain action is left to the will of the parties, it is permissible for the parties to agree on a different matter apart from the procedural provisions. If there is an agreement to exclude the right to sue, a party may assert a procedural defense that the procedural action relating to it is illegal. On the other hand, matters relating to the public interest are outside the scope of the disposal of the parties and are mandatory laws, so any agreement to change or exclude them is illegal and invalid.

In order to ensure freedom of decision-making with respect to a certain procedural act, the agreement must clearly state what the effect of the agreement will be and the limits to which the parties will be disadvantaged by the effect, if there are any.

V. Incontestability as procedural contract

Regarding the incontestability clause for filing an opposition to grant of patent and filing a request for a trial for invalidation in Japan, Germany has a similar administrative dispute procedure, and the discussion here is useful. In Germany, an incontestability clause is considered legal, but some critical views can be found[5]. The criticisms are as follows. First, oppositions and actions for revocation may be initiated by anyone acting "on behalf of the public" in order to remove illegally granted patents as quickly as possible. As a result, their procedural rights in ordinary civil litigation are also limited. Second, the proceedings are governed by the ex officio principle, so the court investigates the substantive relationship ex officio and is not bound by the parties' assertions or offers of evidence. In the case of an action for revocation, the parties are formally the plaintiff and the patentee, but what is at issue here is the revocation of the administrative act of the Federal Patent Office in granting the patent, and the principle of legality of procedural contracts in the ordinary civil procedure law cannot be reflected in an action for revocation in the Patent Law. As a result, the plaintiff's eligibility cannot be affected by an incontestability clause in the contract between the two parties. However, such criticism has been re-criticized as exaggerating the restrictions on private autonomy by patent law[6]. In an action of invalidity, a legislator replaces the

[4] *Y. Aoyama,* "Contract in procedural law "(Basic Law 4 - Contracts), 1983, pp.241.
[5] *Kuhbier*, GRUR 1954, pp.187; *Schwerdtner*, GRUR 1968, p.9, p.11.
[6] *Wagner*, Prozeßverträge, 1988, pp. 104.

pleadings principle, a procedural principle in civil litigation, with the ex officio principle, but does not eliminate the principle of disposition. Here, the full ex officio principle has not been adopted. The point about anyone being able to initiate proceedings is not a matter of classical popular procedure, but of procedure relating to private interests by interested parties. In other words, they are not acting on behalf of the public, but on their own rights. Each individual is completely free to bring, abandon, or waive an action, and has the right to sue as a personal authority, the enforcement of which can be disposed of by contract. Therefore, in Germany, an incontestability clause is considered to be legal as a procedural contract. These matters basically apply to oppositions and trials for invalidation in Japan in almost the same way. When a licensee initiates proceedings due to violation of an incontestability clause, and the licensor alleges violation of the agreement, the proceedings are directly rejected as being illegal from the beginning as an effect of the incontestability clause. On the other hand, if the licensor does not assert the existence of the clause and the licensor complies with the procedure, the clause is deemed to have been implicitly canceled, and any subsequent assertion should be considered impermissible.

It is in civil disputes, either formally or substantively, that the defense of invalidity in infringement litigation is asserted. Here, the validity of a patent right is treated as a preclusive issue of infringement. If the incontestability clause is interpreted as legal, the patent right is considered to be valid and the issue of infringement is determined. In this case, it will be interpreted as a contract similar to the agreement of the parties regarding the confession of right (confession contract), which recognizes the patent right as the precondition of the subject matter of the litigation. A confession contract is understood as a type of evidentiary contract, and is valid as long as it does not prejudice the free mind of the judge, and confessions of right are also understood in the affirmative. However, even if such an agreement is made on the date of oral argument, the incontestability agreement is usually made outside the trial, and in this case, the confession is not a trial confession but an out-of-court confession.

As mentioned above, incontestability can be recognized as legal in a procedural sense. However, since this would close the way to judicial and quasi-judicial remedies, the subject matter should be specifically stated in writing in order to clarify the intention of the parties (see Article 32 of the Japanese Constitution): the subject patent rights and ways to challenge the validity of the patent rights.

Furthermore, when a license contract is concluded between a company and a consumer, especially when it is concluded through General Terms and Conditions, it should be interpreted as invalid in principle from the viewpoint of consumer protection (Article 10 of the Consumer Contract Act).

VI. Conclusion

In view of the effect of an inconsistency clause, it can be assessed that the parties are agreeing for the purpose of a judicial or quasi-judicial effect. In Germany, an incontestability clause is regarded as a procedural contract, and there is a discussion on whether it satisfies the legality requirements. In this report, I have examined the legality of incontestability in Japan with reference to such discussions, and have clarified that it can be tolerated from the viewpoint of procedural law, along with its procedural treatment.