

# Patent Infringement Litigation in Japan

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# *Patent Infringement Litigation in Japan*

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## **Introduction**

In recent years, particularly since 1999, the practice before the Japanese courts in patent infringement litigation has gone through dramatic changes. While we will be discussing in more details later, the average pendency of intellectual property lawsuits, for example, have come down to about 13.5 months in 2005 from 31.9 months in 1993. The way the court calculates damages has changed significantly through certain patent law amendments.

In this paper, discussions on patent infringement litigation from the standpoint of the defense and primarily for the initial phase of disputes are first presented in Part 1, and procedural aspects of infringement litigation will then be discussed in Part 2. Also, some of recent litigation-related issues, including the new Code of Civil Procedure, are summarized.

## **Part 1 - How to Deal with a Warning Letter**

### **Patent Attorney and Attorney at Law in Japan**

In Japan, as in many other countries, two different qualifications are important in connection with patent litigation: one is the attorney at law or *Bengoshi*, and the other the patent attorney or *Benrishi*.

The attorney at law or *Bengoshi* is a litigator who is qualified to represent clients before the court and conduct legal work in general. In order to become an attorney at law, a candidate has to pass the national bar examination. While currently in transition from the old system in which no specific legal educational requirements existed, all candidates will soon have to have graduate school education from an American-style law school in order to take this bar examination. After passing the bar examination, which is also a required path to become judges and public prosecutors, there is a one-year period of practical training under the supervision of the Supreme Court. Attorneys at law can stand before all courts in Japan representing clients in all types of litigation and also exclusively deal with many legal services for fees. The number of attorneys at law was about 18,000 in 1999 and about 21,200 in 2005.

On the other hand, the patent attorney or *Benrishi* is a professional who is primarily qualified to do the filing and prosecution of patent, design and trademark applications at the Patent Office on behalf of their clients. They can also stand before the court for appeals from decisions made by the Patent Office. They are also qualified to prepare infringement opinions and deal with intellectual property licensing and certain customs procedures. In order to become a patent attorney, it is required to pass the national examination administered by the Patent Office. While many who pass this examination have a technical or scientific background, no requirement exists concerning technical education in order to be a patent attorney. The number of patent attorneys is increasing sharply, reflecting the government policy of deregulation. There were about 4,300 patent attorneys in 1999 and more than 7,000 at the end of

2006.

Attorneys at law and patent attorneys have different expertise that is useful in fighting before the court. In many patent infringement lawsuits, attorneys at law and patent attorneys form a litigation team, and it is recommendable to have such a team.

## **Beginning**

Disputes often begin with an unexpected warning letter from an unknown party. They may also arise from broken licensing agreements as well as failed negotiations. In Japan, a warning letter is not required to begin litigation. The patentee is allowed to presume that a third party has infringed its patent negligently<sup>1</sup> with a showing of infringing acts, while under the civil law willfulness or negligence has to be proven to obtain damages as a matter of general principle. The alleged infringer has the burden of proof and has to break the presumption by proving that he used due care not to infringe the patent, for example, by having carried out a comprehensive patent search.

Despite such provisions, the patentee normally sends a letter to a potential infringer because it is considered prudent to have negotiations before going to the court. Moreover, a warning letter makes it practically impossible for the infringer to prove the lack of willfulness or negligence upon continued use of the patented subject matter.

The sender of the warning letter may sometimes not be a patentee. A registered exclusive licensee<sup>2</sup> is entitled to start a patent infringement lawsuit and may send you a warning letter,<sup>3</sup> while a non-exclusive licensee is normally not allowed to initiate such legal action. Given this understanding, the term patentee will be used for both patentee and registered exclusive licensee in this paper.

In the U.S. or Europe, lawsuits often begin without any preceding warning letters. This is in contrast to the Japanese practice. One of the reasons for this may be forum shopping. By filing a complaint first, the patentee can prevent the alleged infringer from selecting a court that he prefers for a variety of reasons. In Japan, the opportunity for forum shopping is very limited, and it is not a major concern.

In order to start infringement litigation before the court in Japan, legal interest or a real dispute has to exist. Having licensing negotiations which are going nowhere is not considered sufficient to bring a lawsuit before the court under normal circumstances. Some form of threat to sue is probably required. On the other hand,

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<sup>1</sup> Patent Law, Section 103, which provides that: "A person who has infringed a patent right or exclusive license of another person shall be presumed to have been negligent as far as the act of infringement is concerned."

<sup>2</sup> Licenses should be registered at the Japan Patent Office. Particularly, exclusive licenses need to be registered in order for them to be effective against third parties. Unregistered exclusive licensee may recover damages but cannot enjoin others from infringing his licensed patent.

<sup>3</sup> See, for example, Section 100, Patent Law.

anyone, with or without legal interest, can request for invalidation proceedings before the Patent Office except in cases of particular grounds for invalidity such as derivation.<sup>4</sup>

## **Aim of the Patentee**

Upon the determination of patent infringement, actions taken by the patentee will depend on his overall business goals. He may ask you to enter into licensing negotiations, pay money for past infringement, or both. You may be simply asked to stop the infringement so that he can enjoy monopoly in the market.<sup>5</sup>

In order to force you to come to the table for negotiation to achieve such goals, the patentee has the option of bringing a lawsuit before the court. He basically has two categories of available remedies: injunction orders and damages awards. The patentee may ask the court to order the infringer to stop such infringing acts as manufacture, use and sale or offer for sale of infringing products.<sup>6</sup> This is called an injunction order. Moreover, he can also obtain a court order forcing the infringer to discard or destroy infringing products or facilities used for committing the infringement.<sup>7</sup> If remedies against the infringement are needed on an urgent basis, the patentee can obtain a preliminary injunction order prior to more formal court proceedings. The preliminary injunction order can be obtained with *prima facie* case of infringement and *prima facie* evidence of irreparable harm together with a showing of need for immediate remedies. In Japan, the court proceedings for preliminary injunction orders are separate from those for damages and permanent injunction orders.

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<sup>4</sup> Section 123(2) of the Patent Law provides that: "A trial for invalidation can be requested by any person. However, for the ground that a patent falls under item 2 of the preceding paragraph (only if the patent was granted violating the provisions of Section 3) or for item 6 of the same paragraph, only an interested party may request." Section 38 provides that a patent application has to be filed in the names of all those who are entitled to obtain a patent on a given invention, and item 6 provides that a patent is invalidated when the patent is granted to a person who is not an inventor and who has not succeeded rights to obtain a patent.

<sup>5</sup> Patent Law, Section 68, which provides that: "A patentee shall have an exclusive right to commercially work the patented invention. However, where the patent right is the subject of an exclusive license, this provision shall not apply to the extent that the exclusive licensee possesses the right to work the patented invention."

<sup>6</sup> Patent Law, Section 2(3) defines the working of an invention as follows. "'Working' of an invention in this Law means the following acts:

(i) in the case of an invention of a product, acts of manufacturing, using, assigning, importing or offering for assignment or lease (including displaying for the purpose of assignment or lease - hereinafter the same) of the product;

(ii) in the case of an invention of a process, action of using the process; and

(iii) in the case of an invention of a process for manufacturing a product, acts of using, assigning, leasing, importing or offering for assignment or lease of the product manufactured by the process, in addition to the acts mentioned in the preceding paragraph."

<sup>7</sup> Section 100, Patent Law.

The second category is to seek damages awards. The patentee can ask for recovery of damages or restitution of unjust enrichment caused by the infringement in terms of monetary compensation.<sup>8</sup> Also, the patentee may have certain remedies resulting from harm to business or personal reputation caused by the infringement.<sup>9</sup> In Japan, at least, it is difficult to obtain an award from the court for future damages that may be likely to occur, but yet to occur.

## **First Actions to Take in Response to the Warning Letter**

### Check the Patent

The first step in response to a warning letter is to check the current validity of the patent. The patent may lapse before the end of its term, which is 20 years from the actual filing date in Japan, for example, by a failure to make annuity payments. Also, patents related to pharmaceuticals and agricultural chemicals may have extended terms. There may be a recorded exclusive licensee, in which case the patentee may not be the rightful party to start litigation for damages.<sup>10</sup> These basic facts have to be reviewed and confirmed at the Japan Patent Office. These types of data are currently available with ease from the web sites of many national and regional Patent Offices including the Japan Patent Office.

### Look into File History

Secondly, a copy of the file history<sup>11</sup> of the patent in question should be obtained for analysis. The exchange of office actions and responses between the examiner and the applicant often provide valuable clues for determining the scope of protection available under the patent.

### Search the Patent Family

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<sup>8</sup> Under the Japanese system, practically speaking discovery found in Anglo-American systems is not available. It is often difficult to obtain evidence the other party has during the course of litigation. However, for calculation of damages, both parties may request the production of pertinent documents under Section 105, Patent Law.

<sup>9</sup> Section 106, Patent Law.

<sup>10</sup> Note that "exclusive licensee" (*senyo jisshi ken sha*) provided in Section 77 of the Patent Law has a special status under the Japanese law and such status may differ from what is meant by "exclusive licensee" under the laws of other countries. In order for the exclusive licensee under Section 77 to enjoy the full exclusivity provided by the Japanese laws, registration of the license is required. To describe the power of a registered exclusive licensee, the patentee is often said to have empty rights within the scope and extent on which an exclusive license is granted except rights to collect royalties.

<sup>11</sup> The file history is the set of all documents the Patent Office has concerning a particular patent or patent application.

Thirdly, it is often useful to determine if the Japanese patent has corresponding patents or applications in other countries. If there are such applications or patents, copies of all prior art references cited should, at minimum, be obtained. The Japanese patent may have been granted simply because the Japanese examiner was unable to find a very pertinent prior art reference.

#### Conduct a Full Prior Art Search

Normally, in order to respond to the warning letter initially, the above steps should be sufficient. If the existence of more pertinent prior art references is suspected, it is, however, necessary to conduct a prior art search among patent and utility model publications in Japan and other countries. It is also possible to search through academic and non-academic journals, newspapers and magazines. A variety of databases are available for such searches as extremely useful tools. In some cases, it may be necessary to go to places like museums to locate non-documentary evidence of prior public use.

#### Review and Analyze

Based on the content of the prosecution history and the result of your investigations, grounds of invalidity of the patent or a basis for restrictive interpretation of the patent claims should be sought. For example, if a newly discovered prior art reference anticipates, or destroys the novelty of, the patented invention, the patent may be invalid. If another reference is found which does not eliminate the novelty of the patented claims entirely, but clearly covers allegedly infringing product or method, it is likely that the court adopts a narrow interpretation of the patented claims to reject the allegation of patent infringement. For the purpose of invalidating a patent, it is possible to go to the Patent Office in Japan, as opposed to a court as in many countries.

The claims in the asserted patent have to be interpreted carefully and compared against your product or method that is suspected of patent infringement. As a rule of thumb, in order to find infringement, each and every recitation in at least one of the claims in the patent has to be found in your product or method. The question of claim interpretation can be very complicated, however, and many more factors have to be taken into consideration. We will discuss this issue in more details later.

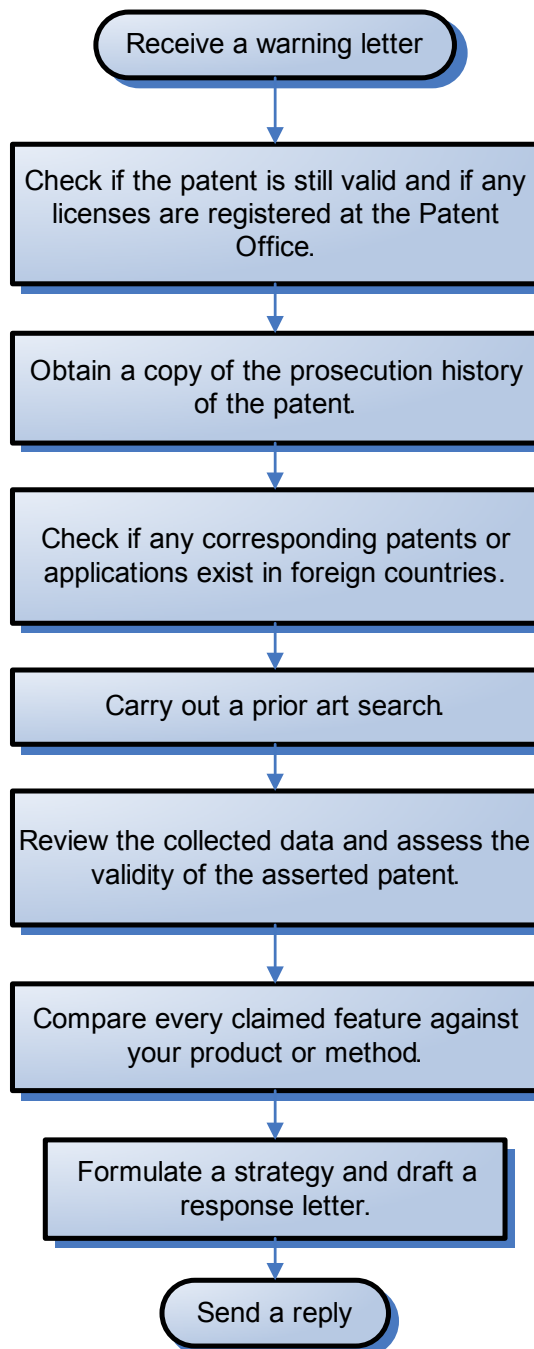
Furthermore, if the patentee is overly aggressive and send letters, for example, to any of your clients and business partners warning of your patent infringement, such actions taken by the patentee may harm your business. If the accusations are unfounded, you can consider suing the patentee under the Unfair Competition Prevention Law<sup>12</sup> for recovery of damages and injunction orders to force him to stop such actions.

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<sup>12</sup> Section 2(1)(xi) of the Unfair Competition Prevention Law defines, as one manner of unfair competition act, notifying and distributing false statements of facts which harm good will of a person who is in competitive relationship.



Fig. 1



### Formation of a Litigation Team

It is important at an early stage to form a team of professionals and consult with them. It is necessary to contact your patent attorney or attorney at law to seek his or her opinions on how to deal with the warning letter. Also, it is often useful to find a professor or researcher who can provide neutral opinions early because the number of experts who can provide opinions for you is usually limited. Together with your company personnel, a team should be formed among patent attorneys, attorneys at law,

and a third party expert. This is important because making a wrong decision at an early stage can be fatal in view of the recent speed of court proceedings. With this team it should be possible to respond to any possible action taken before the court in a timely manner.

## **Invalidity of Patents**

Currently Japan has a double track system with respect to the invalidity of patents. The Patent Law provides the Patent Office with power to invalidate patents on certain grounds.<sup>13</sup> Also, the court handling a patent infringement case can find a disputed patent unenforceable if some ground for invalidity exists, and this is a recent development in Japan.

On April 11, 2000, the Supreme Court reversed the precedents set by its predecessor court in the Kilby<sup>14</sup> patent case between Fujitsu and Texas Instruments (Case No. 1998 (o) 364). Initially, Fujitsu sought a declaratory judgment against TI. The Supreme Court agreed with the Tokyo High Court that the divisional application that resulted in the patent in dispute was illegal and therefore the patent cannot be enforced. The Supreme Court affirmed the Tokyo High Court decision. In doing so, it changed the precedents set by its predecessor court some 85 to 100 years ago, and allowed courts that are considering infringement disputes find patents invalid and unenforceable. The Japanese Patent Law provides that the Japan Patent Office is entitled to invalidate patents, and it used to be believed that it was not possible for the infringement court to find a patent invalid prior to the Japan Patent Office's decision on that issue. The Supreme Court stated that: "it should be possible for the court that is hearing a patent infringement case to decide whether or not it is clear that grounds for invalidity exist, and as a result of such deliberation, if grounds for the invalidity clearly exist against the disputed patent, requests for an injunctive relief and damages award based on the patent should not be allowed as an abuse of patent rights."

Subsequent to this Supreme Court decision, the Patent Law was amended in 2004 to codify the decision.<sup>15</sup>

## **Interpretation of Patent Claims**

In order to determine whether there is an infringement or not, it is necessary to first compare the asserted patent claims and your product or method. It is very important to base your analysis on the claims. Definitions of some terms used in the claims may be found in the body of the specification. The claims in and of themselves may not be clear, and it may be necessary to refer to the text of the patent. However, the patent claims always form the primary basis for determining the scope of exclusivity provided under the patent and judging the existence of infringement. It is not normally permitted to interpret the claims as narrow as specific embodiments disclosed in the

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<sup>13</sup> Section 123, Patent Law.

<sup>14</sup> Dr. Kilby was awarded a Nobel Prize in 2000 for his inventions of integrated circuits.

<sup>15</sup> Section 104ter, Patent Law.

specification unless you have good reasons to do so.

Section 70 of the Patent Law provides that the technical scope of a patented invention "shall be determined on the basis of the statements of the patent claim(s) in the specification," and the meaning of a term or terms found in the patent claim(s) is interpreted in the light of the body of the specification and the drawings.

There are several aspects to claim interpretation and infringement in general. They will be discussed in the following.

## 1. Literal Infringement

As a first step, it is necessary to check if the allegedly infringing product or method contains all the features or limitations recited in any of the claims in the disputed patent. If the answer is affirmative, there is a literal infringement. Based on this determination, it may be necessary to enter into negotiations with the patentee or consider possible modifications to the design of the product or the method in question so as to place it outside scope of the patent protection.<sup>16</sup>

The possibility of using prior art references or the content of the prosecution history should be considered to reach a narrow interpretation of the patent claims. However, unless the patent is clearly invalid in view of such information, the patentee often takes a position different from yours and brings a lawsuit before the court. Therefore, it is important to take a practical approach and weigh the influence of such a lawsuit on your business when deciding on the course of actions.

On the other hand, if the disputed product lacks one or more elements or features recited in pertinent claims or if the method does not have one or more steps or limitations found in the claimed method, no literal infringement exists.

If the answer to the question of literal infringement is negative, the possibility of a broader interpretation of the patented claims should then be considered.

## 2. Doctrine of Equivalent Infringement

The doctrine of equivalents gives the patentee a broader interpretation of claims based on the understanding that if no exceptions are provided beyond the literal interpretation of the patented claims, it is often very difficult to provide adequate patent protection. In Japan, the Supreme Court has approved the doctrine and provided a set of clear criteria for its application.

Initially, the Tokyo and Osaka High Courts expressed affirmative views on the doctrine.<sup>17</sup> Further, on February 24, 1998, in an appeal filed by the accused infringer

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<sup>16</sup> So-called "designing around."

<sup>17</sup> THK v. Tsubakimoto (concerning a ball spline bearing), Tokyo High Court, February 1994; and Genentech v. Sumitomo Pharmaceuticals (concerning human tissue

in the so-called ball spline bearing case, the Supreme Court redefined the doctrine of equivalents. The Supreme Court stated that for the doctrine to be applicable the following five criteria have to be considered:

Even if there exists a portion in the patent claim that is different from the alleged infringing product, an infringement may be found provided:

1) the differing portion is not an essential part of the patented invention;

2) the same function and results are still obtained serving the same purpose as that of the patented invention even if that portion is replaced by the corresponding element found in the allegedly infringing product;

3) the above replacement would have been easily conceived by a person skilled in the art with reference to the time of manufacture of the infringing product;

4) the infringing product is not the same as the art publicly known at the time of filing for the disputed patent and it could not have been easily conceived by a person skilled in the art at the time of filing for the patent based on such publicly known art; and

5) no special circumstances exist such as the intentional exclusion of the infringing product from the scope of the patented claim during the prosecution of the patent application for the patented invention.

The Supreme Court pointed out that the Tokyo High Court failed to consider condition 4 above and remanded the case back to the original court. The case was subsequently settled. In addition to the first three conditions, the Supreme Court included the last two conditions, which are traditionally considered as defense arguments, as essential part for the correct application of the doctrine, .

Also, the equivalent is determined in view of the state of art at the time of infringement. This new time framework was discussed at WIPO during meetings for the Patent Law Treaty, which was reduced to a formality treaty and concluded in June 2000.

Further, the newly added latter two requirements are well known legal constructs: condition 4 reminds us of the Wilson golf ball case in the U.S., in which it was noted that the application of the doctrine hinges on a hypothetical patent claim crafted to be unobvious over the prior art and cover the alleged infringing product; and condition 5 suggests the prosecution history estoppel, which is well recognized and established as defense in some countries including Japan.

The significance of this decision is the fact that it was rendered by the Supreme Court. In a strict sense, Supreme Court decisions alone have the authoritative status in Japan. Different from lower court decisions, Supreme Court decisions function as law and are regarded as binding on lower courts. The fact that the Supreme Court said nothing negative about the doctrine of equivalents and clarified the criteria gives legitimacy to assertions of doctrine of equivalent infringement. Lower courts have

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plasminogen activator (t-PA)), Osaka High Court, March 1996.

handed down a number of decisions on the application of the doctrine since this Supreme Court decision, and the above criteria have invariably been adopted in those decisions. Generally speaking, however, the percentage of decisions in which the doctrine was applied in favor of patentees remains small or about 4-6% of all cases in which the doctrine is asserted, and it should be understood that the doctrine of equivalents is available only in very limited situations.

### International Aspects of the Doctrine of Equivalents

The doctrine of equivalents is recognized in many countries now. This concept is particularly well developed in the U.S. and Germany. In the United Kingdom, it is often noted as "purposive construction" of patent claims. Factors considered by courts in different countries can be similar superficially, but the actual application of such factors may vary considerably from one country to another.

In the recent *Festo* case,<sup>18</sup> the Court of Appeal for Federal Circuit decided *en banc* (i.e., by all the judges of the court) to severely limit the scope of equivalents by prosecution history estoppel.<sup>19</sup> Subsequently, the U.S. Supreme Court modified the CAFC decision to give some more flexibility in applying the doctrine, but at the same time confirmed the general direction the CAFC has been taking.<sup>20</sup> In view of this decision and such decisions as the Supreme Court decision in *Warner-Jenkinson v. Hilton Davis* 520 U.S. 17 (1997), the U.S. courts now tend to limit the availability of the doctrine of equivalents, in favor of certainty on the scope of patent protection.

Also, according to the amendment of the European Patent Convention, which will take effect toward the end of 2007, the well-known protocol to Article 69 of EPC has been revised. The Protocol on the Interpretation of Article 69 EPC has been amended by adding Article 2. It has been made clear that the scope of protection is not limited to the wording of the claims, but is extended to equivalents. In accordance with Article 2, "due account shall be taken of any element which is equivalent to an element specified in the claims." Article 3 was proposed on the prosecution history estoppel, but it was not included in the final text of the Protocol. This may be regarded as reflection of the fact that no strict principles comparable to the US-style prosecution history estoppel with respect to amendments made during the prosecution of patent

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<sup>18</sup> *FESTO CORPORATION v. SHOKETSU KINZOKU KOGYO KABUSHIKI CO., LTD.*, No. 95-1066. Decided November 29, 2000.

<sup>19</sup> Prosecution history estoppel prohibits the patentee from asserting something that is contrary to what he stated during the prosecution of the relevant patent application before the patent office. In some cases, the applicant argues before an examiner that a patent claim should be interpreted narrowly or amends a patent claim to distinguish his invention from prior art and successfully obtains a patent. He is then estopped from saying, for example, that his claim is broad enough to cover an allegedly infringing product before the court contrary to his previous argument or claim amendment.

<sup>20</sup> *FESTO CORP. v. SHOKETSU KINZOKU KOGYOKABUSHIKI CO.* (00-1543) 535 U.S. 722 (2002) 234 F.3d 558, vacated and remanded. Argued January 8, 2002 and decided May 28, 2002.

applications exist in Europe.

### 3. Indirect Infringement v. Direct Infringement

If a product in question contains, as mentioned above, all the features and limitations recited in a patent claim or if it is considered to be an infringement under the doctrine of equivalents, it would constitute a direct infringement. The same is true for patented claims directed to methods. If your product does not contain some portion of the elements or features found in a claim, no direct infringement should be found with respect to that claim.

Also, if someone produces a kit which contains all the elements that form the claimed product and a consumer purchases and assembles it at home, neither the sale of such kit nor assembly would constitute direct infringement, because the kit would lack some features or elements that tie the claimed structural elements together, while the assembly cannot be considered to have been done "commercially" as required in Section 68<sup>21</sup> of the Patent Law. This is also true if an unauthorized person is selling an essential component of the claimed product by omitting a few trivial elements or features recited in a patent claim.

Such acts cannot be overlooked from the standpoint of meaningful patent protection. Therefore, the Japanese Patent Law contains some provisions<sup>22</sup> that regard such acts as another form of infringement, so-called "indirect infringement," thus giving the same protection as against a direct infringement. In some other countries, similar types of infringement are called "contributory infringement" and dealt with somewhat differently from the Japanese-style indirect infringement.

## **Review of Your Position against the Patentee**

The status of the patent in question has now been checked, and its prosecution history reviewed. The possibility of infringement by comparing the disputed product or method and the patent claims has also been evaluated while taking the prior art into consideration. It is now necessary to review the defensive position against the patentee.

### 1. Reexamination of Your Patent Portfolio

The patents you have in your portfolio should be checked with respect to the patentee's, or its licensee's, products or methods. If one or more of your patents appear to cover such products or methods, they may be pointed out and an offer to cross license

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<sup>21</sup> Supra.

<sup>22</sup> Section 101, Patent Law provides that: "The following acts shall be deemed to be an infringement of a patent right or exclusive license: (i) in the case of a patent for an invention of product, acts of manufacturing, assigning, leasing, importing or offering for assignment or lease of, in the course of trade, article to be used exclusively for the manufacture of the product; (ii) (omitted)"

can be made. This will strengthen your position during negotiations.

## 2. Prior User Right

The date on which your product or method began to be made or used or substantial preparation for the product or method was made should be checked. For example, if the product had already been made or significant preparation for the production had been started as of the filing date of the patent in question, a so-called "prior user right" may be available as defense.<sup>23</sup> Under the prior user right, it is possible to continue to make, use or sell the product or use the method without any liability associated with patent infringement. Also, a patent cannot cover products that existed before the effective filing date or those merely passing through Japan in transit (Section 69(2), Patent Law as well as Article 5ter, Paris Convention).

## 3. Experimental Use

Under Section 69(1) of the Patent Law, acts done for experimental or research purposes are excluded from the patent protection. If you are making a product or using a method for purely scientific test purposes, you basically cannot infringe any patent. The purpose of Section 69(1) is to promote scientific or technological developments. Therefore, experimental manufacturing and sale for testing market is not exempted.

Another big issue is whether or not carrying out experiments for the sole purpose of obtaining governmental approvals for marketing generic drugs may be exempted under Section 69(1). On April 16, 1999, the Supreme Court handed down a decision concerning the question of experimental use exemption in favor of generic drug manufacturers. The Court found that tests carried out during the patent term in an attempt to obtain governmental approvals for manufacture and sales after the expiration of patents do not constitute patent infringement under Section 69(1) of the Patent Law. This decision is apparently in line with the comparative decisions issued by the German Supreme Court around the same time, although fact situations are not entirely the same between Japanese and German cases.

Prior to the Supreme Court decision, on July 18, 1997, the Tokyo District Court rendered three decisions in actions brought by Otsuka Pharmaceutical Co., Ltd. against several generic drug makers. In those decisions, the 29th civil division of the Court

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<sup>23</sup> Section 79, Patent Law provides for what is more commonly known as prior user rights in terms of a non-exclusive license. Section 79 reads as follows: "Where, at the time of filing of a patent application, a person who has made an invention by himself without knowledge of the contents of an invention claimed in the patent application or has learned the invention from a person just referred to, has been commercially working the invention in Japan or has been making preparations therefor, such person shall have a non-exclusive license on the patent right under the patent application. Such license shall be limited to the invention which is being worked or for which preparations for working are being made and to that purpose of such working or the preparations therefor.

found no patent infringement for experiments done by generic drug makers during the patent term. This was a complete reversal of earlier decisions made by various courts. For example, in the Synthelabo case, the Nagoya District Court had found patent infringement because the experimental use exemption (Section 69, Patent Law) was not applicable to the experiments which were done for the sole purpose of obtaining governmental approval for future sale of old patented drugs and which did not lead to scientific advances. The Kanazawa branch of the Nagoya High Court and the Osaka District Court have also followed the line of reasoning set out in the Synthelabo cases. Thus, two lines of contradicting reasoning existed in Japan, and the above Supreme Court decision put an end to the confusion.

Also, in this connection, preparation of drugs under prescriptions given by medical doctors would not constitute a patent infringement as provided in Section 69(2) of the Patent Law.

#### 4. Compulsory Licenses

The Patent Law allows the granting of compulsory licenses for implementing dependent, i.e., related inventions.<sup>24</sup> It also provides for compulsory licenses for the use of inventions that have not been used for an extended period of time<sup>25</sup> as well as for the interest of the general public.<sup>26</sup>

When a patented invention is implemented, such use may result in the use of another patented invention which has a prior filing date and is owned by another party. This type of situation occurs when a patent is granted on an improvement over another patented invention with an earlier filing date. The later-filed invention is called a dependent invention. The implementation of the dependent invention would constitute an infringement on the basic patent. In order to use the dependent invention the patentee has to obtain a license on the basic patent. When such license is not available, however, the dependent invention cannot be utilized,<sup>27</sup> possibly impeding further development of technology and industry. Therefore, the Patent Law provides procedures for requesting and granting compulsory licenses on the basic invention by going through a prescribed arbitration process.

The Patent Law also provides for similar licenses when a patented invention has not been utilized over an extended period of time, so as to encourage patentees to put their patented inventions in use. Compulsory licenses may also be granted when it is clear that the public will enjoy large benefits if an unused patented invention is implemented, in the case of, for example, a new drug on a disease for which no medicinal cure was previously known.

Several applications have been filed to initiate the arbitration process; however,

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<sup>24</sup> Section 92, Patent Law.

<sup>25</sup> Section 83, Patent Law.

<sup>26</sup> Section 93, Patent Law.

<sup>27</sup> Section 72, Patent Law.



no compulsory licenses of any kind have been granted thus far. Also, under one of the two bilateral agreements between Japan and the U.S. respectively concluded in January and August 1994, it has now become practically impossible to obtain a compulsory license to use a patented dependent invention if a basic patent exists.<sup>28</sup>

## **Reply to the Warning Letter**

Normally, a requested date for a reply is stated in a warning letter. Although there is no legal obligation to reply by this date, it would be advisable to send some form of reply. It is possible to simply state that the process of reviewing the situation is under way and set another date for a more substantive reply.

After the above-mentioned review process is finished, a reply stating your position can be sent to the sender of the warning letter.

## **Possible Actions in Response to Allegation of Infringement**

### **A. When Infringement Is Likely**

If your review leads to the conclusion that an infringement is likely to be found by the court if litigation occurs, it is necessary to consider the following options.

#### **A1. Stop infringement**

Stop the infringing acts, such as the manufacture, sale, and importation of products that come under the scope of patent protection. However, it is possible that, as an accused infringer, you may be liable for past damages even if you stop the infringing acts immediately.

#### **A2. Enter into licensing negotiations**

Enter licensing negotiations with the patentee or exclusive licensee, provided that he is willing to give you some type of license. The above-discussed review of your patent portfolio and consideration of other factors will be important in strengthening your position during negotiations. Another option is to buy a portion or the entirety of the patent and become the patentee yourself.

#### **A3. Design around**

With some modifications on the design of your product or changes in your method, patent infringement may be avoided. This normally costs substantial amounts of money, particularly if manufacturing has been done on a large scale. This option

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<sup>28</sup> The August 1994 agreement stipulates that: "Other than to remedy a practice determined after judicial or administrative process to be anti-competitive or to permit public non-commercial use, after July 1995, the JPO is not to render an arbitration decision ordering a dependent patent compulsory license to be granted."

has to be considered in the context of the costs involved in the other options. Also, the patentee may seek the recovery of damages for past infringement.

## B. When No Infringement Exists

### B1. Argue for non-infringement

If the patent appears to be invalid after your review of the prior art and the prosecution history, you can state that in your reply to the patentee. It is possible that the patentee simply did not know the existence of prior art references which would invalidate the patent. If the patentee is willing to withdraw his allegation of patent infringement, it is often wise to maintain the patent because in effect you may be able to discourage others from entering your market based on the patent.

Even if you believe, however, that there is no infringement because your product or method is outside the scope of the patent protection, i.e., non-infringing, it may still be difficult to convince the patentee of your position. It may be necessary to consider the options discussed above for situations in which infringement is likely in order to avoid costs and trouble of possible lawsuits.

### B2. File for invalidation proceedings

To invalidate a patent in Japan it is possible to separately request the Patent Office to invalidate the patent. If the Patent Office, and the Intellectual Property High Court if appealed,<sup>29</sup> finds that the patent is invalid, there is no patent infringement for both past and future.

According to the Supreme Court decision mentioned above, it is possible for an infringement court to find a patent unenforceable. The determination made by such court is binding to the parties only. In order to get rid of a patent entirely or without going through an infringement lawsuit, it is still required to go to the Patent Office. Also, any person can start the invalidation proceedings without showing of legal interest,<sup>30</sup> while legal interest is still required if derivation is a ground for invalidity or if the patent application was filed by only some of co-inventors, violating the provisions of Section 38 of the Patent Law.

Please note that currently we do not have any opposition proceedings. We used to have an opposition system in Japan, but this system was abolished as of January 2004, because the opposition system was considered redundant with the invalidation procedure before the Japan Patent Office.

Normally the court is unwilling to halt or stay the proceedings of the

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<sup>29</sup> The Intellectual Property High Court, which was formed in 2005 within the Tokyo High Court, has exclusive jurisdiction over cases which are appeals from decisions made by the Appeal Department of the Japan Patent Office.

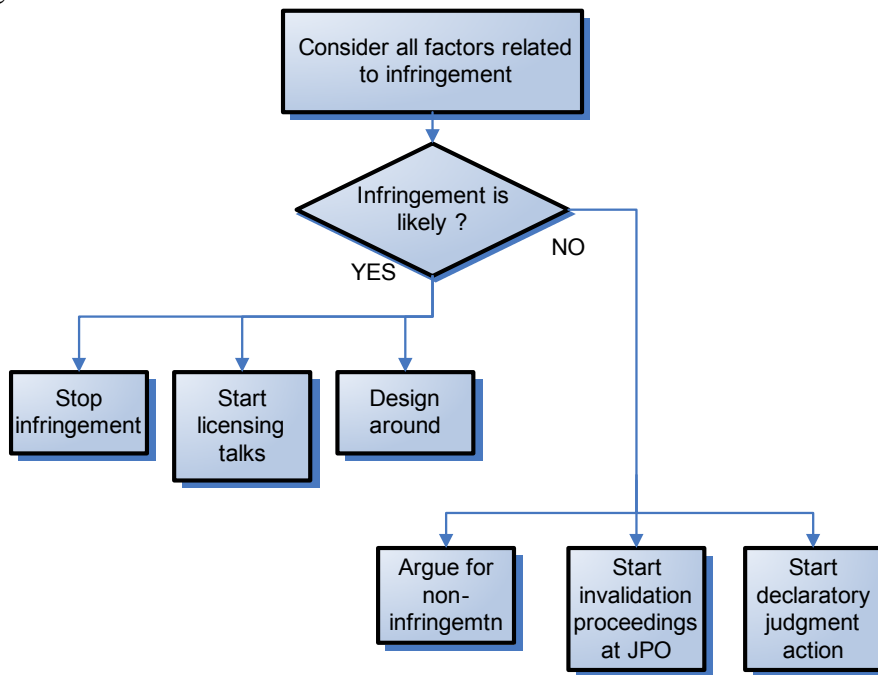
<sup>30</sup> Section 123(2), Patent Law.

infringement case in order to wait for the Patent Office to decide on the question of invalidity because unless both parties agree, at least one party is likely to suffer from a delayed court decision.

### B3. Declaratory judgment action

As an alleged infringer, you can bring a lawsuit to have a court confirm non-infringement. Such action is often called a declaratory judgment action. It may be filed to obtain the court's confirmation, for example, that you have no liability with respect to infringement of the patent, that the patentee does not have a right to obtain an injunction order from the court, or that you have prior user rights. However, in order to start a lawsuit, you have to have a real dispute that would give legal interest required for any court actions. Having failed negotiations alone may not be sufficient to support a complaint to be filed with the court. If you are clearly threatened by the patentee with the probable initiation of a lawsuit, it should probably suffice.

Fig.2



## Part 2 - Court Proceedings

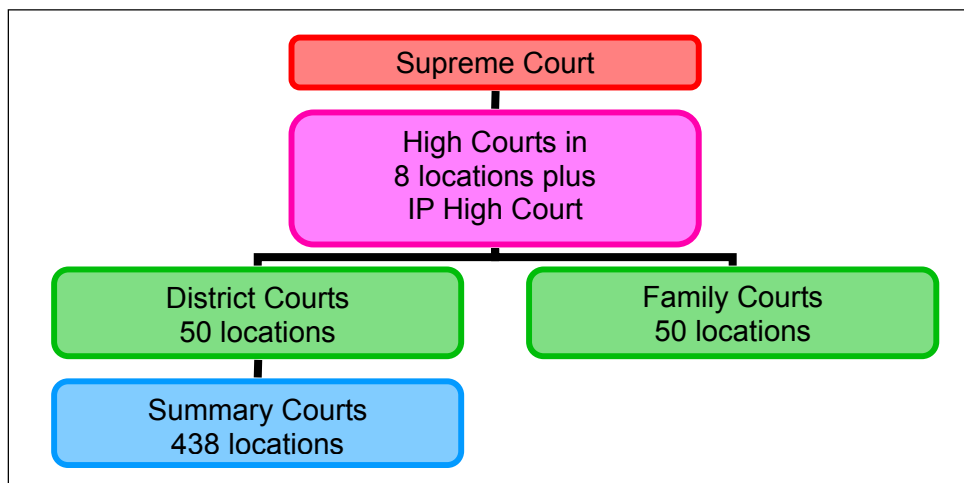
### Jurisdiction

Currently, only two district courts, the Tokyo and Osaka District Courts, have jurisdiction over patent infringement cases. This concentration of patent cases to these two courts started in April 2005 for the purpose of accumulation of expertise among particular courts. It is not allowed to bring a patent infringement suit before a court

other than these two.<sup>31</sup>

The court structure in Japan is shown in Fig. 3. While we have 50 District Courts in Japan, technology-related cases are concentrated at the Tokyo and Osaka District Courts. Summary Courts are only for simple cases with small amounts of damages involved, and therefore they are not used for patent cases. Family Courts do not have jurisdiction over patent cases. If a District Court in the western part of Japan has ordinary jurisdiction over a given patent infringement case, the Osaka District Court has sole jurisdiction. For the eastern part of Japan, it is the Tokyo District Courts. The Tokyo District Court have 4 divisions that specialize in intellectual property cases with 18 judges and so-call “research officials”<sup>32</sup> who have technical background and help judges understand technical details. The Osaka District Court has two IP specialized divisions. Patent infringement cases are handled by a panel of three judges.

Fig. 3 - Court System in Japan



The Intellectual Property High Court has jurisdiction over all patent cases appealed from the Tokyo and Osaka District Courts. This Court was set up in April

<sup>31</sup> This is applicable to technical cases involving patents, utility models, circuit layouts, and copyrights related to computer software. Non-technical cases such as trademark, design, unfair competition, plant breeders’ right, and ordinary copyright cases are handled by any of district courts in Japan, but the Tokyo and Osaka District Courts have overlapping jurisdiction on such cases. The Tokyo District Court can take up a case to which normal jurisdiction somewhere in the eastern half of Japan is applicable and the Osaka District Court in the western half. For example, two parties in Okinawa, the western-most island area in Japan, can bring a lawsuit either before the District Court in Okinawa or before the Osaka District Court.

<sup>32</sup> The Tokyo District Court had about 7 such officers, Osaka District Court 3, and IP High Court 11 as of 2006. They are full-time public servants. Many of them are experienced patent examiners on loan from the Japan Patent Office, and currently two patent attorneys are working as this officer on a three-year contract.

2005 within the Tokyo High Court and is given some degree of autonomy and independence. It has four divisions and 18 judges with 11 research officials. It is responsible for all appeals for technology-related infringement cases and also appeals from appeal department decisions of the Japan Patent Office. The IP High Court has the system of so-called “grand panels” which consist of five judges: the four division heads plus one judge who is actually handling the case. This grand panel system is expected to reduce variations in their opinions among the four divisions at the High Court level.<sup>33</sup>

## Complaint

A lawsuit starts with the filing of a complaint with a court. The complaint has to include not only bibliographic information such as the identity of plaintiffs, defendants, attorneys and patents involved, but also substantive arguments concerning infringing acts. With the filing of the complaint it is required to provide a court with some supporting evidence sufficient to back up accusations made in the complaint. It is, however, not necessary for the patentee to establish negligence on the part of the alleged infringer because negligence is presumed under Section 103 of the Patent Law.<sup>34</sup> This presumption is normally difficult to break.

It is generally important for the plaintiff to do a thorough research before bringing the case to the court, because while certain procedures are available for collection of evidence, the court is often reluctant to issue orders in favor of the plaintiff, believing that strong measures against the defendant often result in significant negative impacts on the part of the defendant.

The filed complaint will be examined for formalities and then served to the defendant by the court, often using special mail service.

## Remedies

The patentee may bring two types of lawsuits, either independently or simultaneously: the so-called main suit (*honso* in Japanese) and the preliminary injunction procedure (*karishobun tetsuduki* in Japanese). The main suit is a normal type of proceedings for a damages award or a permanent injunction order or both. The proceedings for a preliminary injunction order are basically separate and have to be requested separately from the main suit. Instead of a panel of three judges for main suits, a single judge normally handles preliminary injunction cases. If issues on facts are disputed, the court often takes a cautious approach and the preliminary injunction proceedings may not be any faster than those of the main suit.

A permanent injunction order is more or less automatically available with the

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<sup>33</sup> As of December 2006, three cases have been decided by grand panels.

<sup>34</sup> Section 103 provides that: "A person who has infringed a patent right or exclusive license of another person shall be presumed to have been negligent as far as the act of infringement is concerned."

court's finding of infringement because the Patent Law specifically provides for the availability of an injunction order.<sup>35</sup> The patentee also may ask for an order for destruction of infringing products or facilities used for infringement.<sup>36</sup>

Furthermore, a declaratory judgment action of non-infringement is a possibility for an accused infringer. In such action, the plaintiff may ask the court for a confirmation of, for example, non-existence of liabilities or rights to obtain an injunctive order.

Criminal remedies are available under the Patent Law.<sup>37</sup> While it is common to involve the police for clear cases of trademark or copyright infringements, criminal procedures are rarely used in patent infringement cases. We see roughly one criminal prosecution case over a few years period on average for patent infringement.

## **First Hearing**

With the service of the complaint, the court sets a date for the first formal hearing and notifies it to the parties, with a one-month notice. The parties are asked to attend this hearing. The defendant is asked also to file a reply brief prior to it. If the defendant or its attorney cannot attend this hearing, the filing of the reply brief suffices. This hearing is formal and done in an open court room: either a traditional court room or a so-called round table court room. The traditional court room has three judges sit on a high bench and the opposing parties face each other in front of the bench. The round table court room is just an ordinary conference room with a large round table in its center. The three judges and representatives of the parties sit around this big table.

## **Subsequent Court Proceedings**

For patent infringement cases, subsequent hearings are held in conference rooms in preparation for the open formal hearing or trial that is normally held only once at the closing of the court case. Only attorneys and representatives of the party companies are allowed during preparatory hearings unless you have permission from the court. Such hearings are conducted by a single judge who is assigned to the particular case with possible help of a court clerk or research official. At the first preparatory hearing, the judge may propose a plan for future hearing dates for each step to be carried out toward the end of the court proceedings.

At each hearing, briefs submitted by the parties are discussed. The judge may ask for clarification or more information. Parties can also ask questions. The judge then proposes further steps to be taken by the parties or court and sets a date for the next hearing. Such hearings normally last 10 to 20 minutes. If discussions are technically

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<sup>35</sup> Section 100(1), Patent Law. "A patentee or exclusive licensee may require a person who is infringing or is likely to infringe the patent right or exclusive license to discontinue or refrain from such infringement."

<sup>36</sup> Section 100(2), Patent Law.

<sup>37</sup> Sections 197, Patent Law.

involved or settlement becomes a possibility, a hearing may last one to two hours.

It is also possible to have a separate session for lectures on technical issues and background by attorneys, inventors or experts who are chosen normally by parties with approval of the court.

Also, the courts jointly have a list of experts<sup>38</sup> from whom they can appoint “expert commissioners” in patent cases. The court provides appointed commissioners with some information about the case and set up a hearing for discussions. Normally, two or three experts are appointed with approval of the parties and provide opinions and discussions on technically complicated issues in a relaxed setting with judges and all parties. Expert commissioners are expected to help judges understand technology involved. Most clearly they are not appointed to provide judges with legal opinions or discuss claim interpretation. It is not possible to formally question or cross-examine them at an open court hearing or trial. “Expert commissioners” are different from court-appointed experts who provide a formal opinion on specific issues the court raises and who can be questioned during the trial.

These preparatory hearings are held normally three to seven times with intervals of a month to a month and a half.

Witness examination and cross-examination are possible, but not common in patent infringement lawsuits.

## **Separation of Infringement and Damages Determinations**

Currently, the court separates the calculation of damages from the determination of infringement. In the complaint initially filed with the court, the plaintiff is expected to include some discussions on damages if an award of damages is sought because court fees are dependent on the value involved in the case, and the defendant is expected to comment on them in the answer. However, the question of damages is normally differed until the court determines that infringement actually occurred.

For the determination of infringement, the court will try to clearly identify alleged infringing products or methods, and will then look at whether asserted claims cover allegedly infringing acts and whether any ground for invalidity exists.

If the court does not believe that infringement took place, it may recommend settlement to each party or declare the closing of court proceedings and render a decision without discussing damages. For the settlement discussions, the court normally discloses its opinion about infringement to each party separately.

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<sup>38</sup> As of October 2006, the number of experts on this list is 180. Of those, university professors account for 57%, patent attorneys 18% and researchers at public institutions 17%, etc.

If the court believes that infringement existed, it may render a non-appealable interlocutory decision (*chukan hanketu*) or simply declare that damages will be discussed next. Once the court proceedings come to this stage, it is probably very difficult to go back to issues related to infringement because the current Code of Civil Procedure prohibits untimely presentation of defense or offense.<sup>39</sup>

## Settlement

During these preparatory hearings, the judge normally seeks the possibility of settlement. If the judge, upon consultation with the other two judges on the panel, forms a firm opinion about the case, he or she may propose possible terms of settlement to each party separately and listen to each party. If the party can come to an agreement, a court report is prepared and the case is closed. It is said that about a half of cases end with settlement.

## Calculation of Damages

General provisions on damages awards exist in the Civil Code.<sup>40</sup> For intangible assets like patents, however, it is difficult to establish a clear relationship between infringement and damages under such general provisions alone. The Patent Law therefore provides for three special ways of damages calculation.

First, the profits the infringer gained in connection with infringing acts can be presumed equal to the damages the patentee suffered.<sup>41</sup> This presumption is available when the patentee works the patented invention.

Second, the reasonable royalty may be awarded as a minimum even if the patentee does not use the patented invention.

The third way of damages calculation is relatively new and was introduced in the 1998 Patent Law amendment. The damages award can be calculated by multiplying the number or amount of products the infringer sold with a marginal profit the patentee enjoyed.<sup>42</sup> This third way possibly gives rise to a large award, because

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<sup>39</sup> Article 157, Code of Civil Procedure.

<sup>40</sup> Article 709, Civil Code.

<sup>41</sup> Section 102(2), Patent Law. Section 102(2) reads as follows: "Where a patentee or exclusive licensee claims, from a person who has intentionally or negligently infringed the patent right or exclusive license, compensation for damage caused to him by the infringement, the profits gained by the infringer through the infringement shall be presumed to be the amount of damage suffered by the patentee or exclusive licensee."

<sup>42</sup> Section 102(1), Patent Law. Section 102(1) provides that: "Where a patentee or exclusive licensee claims, from a person who has intentionally or negligently infringed the patent right or exclusive license, compensation for damage caused to him by the infringement, and the person's act is the assignment of articles by which the act of the infringement was committed, the sum of money with the profit per unit of such articles multiplied by the number of articles (hereinafter referred to in this paragraph as the



the profit figure used would be a marginal profit or a profit the patentee enjoyed on the last product it sold. It should not be difficult for the patentee to show profit figures based on own accounting figures. In order to arrive at a figure for the marginal profit, only normal manufacturing and sales costs can be deducted from the gross profit. It is probably not allowed to deduct initial R&D costs and marketing or advertising costs.

## **The Last Stage of Court Proceedings**

When the judge believes that court proceedings have matured and each party's case is clearly presented, he or she declares the closing of preparatory procedure. Then the judge sets the date of an oral hearing or trial hearing (*kotobenron*). This trial hearing is only a formal one in which each party presents its case as argued during the preparatory procedure. The panel of three judges then declares the closing of the trial hearing and set a date for a decision. This date is normally one to two months from the date of the trial hearing. It is not necessary for parties to be present in a court room when the panel renders the judgment and orally announce the conclusion of the decision. An official copy of the decision can be obtained from a court official at the court or served by the court using special mail service.

From the filing of a complaint to the rendering of a decision may take a year or a year and a half for average cases.

## **Appeals**

Appeals from the Tokyo or Osaka District Court are handled only by the Intellectual Property High Court, which was formed in April 2005 within the Tokyo High Court and located in the same building as before with certain but limited amount of autonomy and independence. This court handles all intellectual property cases appealed from all district courts.

The IP High Court in this case is another trial court. It is possible to raise new questions concerning facts before this court, produce new evidence or examine new witnesses. No juries are involved at any stages of court proceedings. The proceedings at the IP High Court are a continuation of what has been done before any of the two District Courts.

The proceedings at the IP High Court are faster on average than before the Tokyo or Osaka Districts and often take less than one year.

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"number of assigned articles") which the patentee or exclusive licensee could have sold in the absence of the infringement may be estimated as the amount of damage suffered by the patentee or exclusive licensee within a limit not exceeding an amount attainable depending on working capability of the patentee or exclusive licensee. Where there is any circumstance that prevents the patentee or exclusive licensee from selling part or the whole of the number of assigned articles, a sum equivalent to the number of assigned articles subject to that circumstance shall be deducted."

From a decision of the IP High Court, appeal is possible at the Supreme Court, but it considers only questions related to the interpretation of the Constitution and law. The Supreme Court consists of 15 judges and a panel of five judges normally reviews each case. Two routes exist for appealing before the Supreme Court. One is based on an argument that the lower court decision is based on a wrong interpretation of the Constitution or otherwise it violates the Constitution. Another one is with a petition for discretionary appeal. The Supreme Court has the discretion whether or not it accepts the review of a decision that seriously violates statutory laws and precedent set by the Supreme Court or its predecessors.

Appeals from decisions in preliminary injunction cases are different from the main suit and more complicated.

### Some Statistics

The number of new intellectual property lawsuits filed at the District Courts in each year is shown in Fig. 4 below. The numbers include all patent, utility model, design, trademark, unfair competition and copyright cases.

Fig. 4

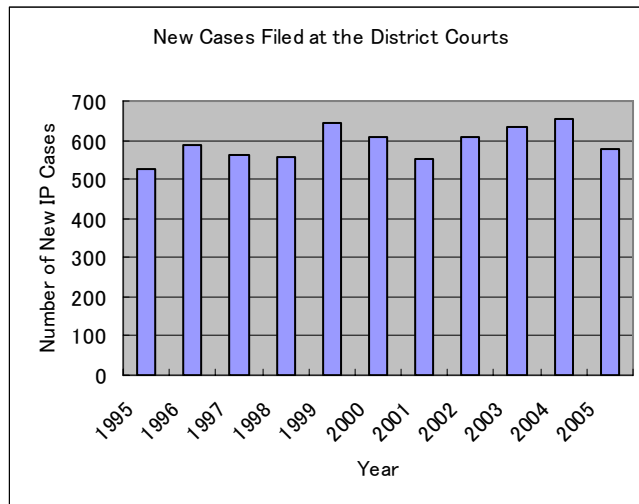
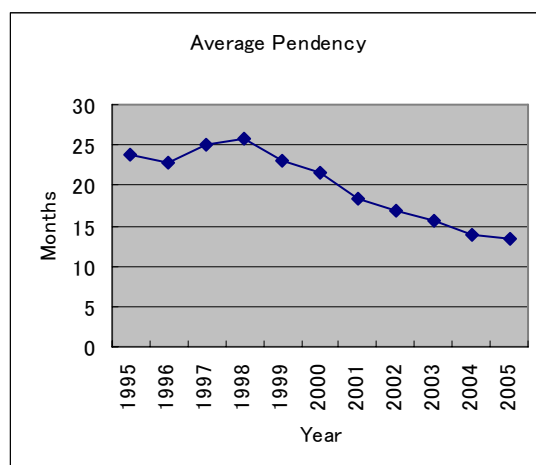


Fig. 5 shows the average period of pendency between the filing of a complaint and disposal of a case by the court.

Fig. 5



The outcomes of lawsuits shown in decisions rendered between January 1998 and April 2004 are summarized in the following table.

Table 1:

Plaintiff won in 22% of all cases and:	
19%	of cases before Tokyo DC
28%	of cases before Osaka DC
Reason for wins:	
Literal infringement	89%
DOE infringement	11%
Defense prevailed because:	
Non-infringement	75%
Invalidity	24%
Validity contested in:	
29%	of cases before Tokyo DC - Found invalid in 22% of all cases
22%	of cases before Osaka DC - Found invalid in 12% of all cases

Source: Mr. Junichi Kitahara

(<http://chizai.nikkeibp.co.jp/chizai/gov/tomatsu20040708.html>)

Table 2 shows a list of cases in which high damages were awarded. Some of the cases in this list have been reversed on appeal for the reasons of invalidity, etc., but are left here because they also show a certain trend in damages calculation the courts adopt. The US dollar figures are calculated based on the fixed exchange rate of 120 yen to one US dollar.

Table 2

	Damages Award	Decision	IP Right
1	\$ 61 million + \$ 8 million	Tokyo DC 3/19/02	Patent on <i>pachisuro</i> (popular gambling game) machines
2	\$ 25.4 million	Tokyo DC 10/12/98	Patent on an H2 blocker (stomach drug)

3	\$ 13.1 million	Tokyo HC 10/31/02	Patent on the method of making tranilast (antiallergic agent)
4	\$ 12.9 million	Tokyo DC 3/26/03	Patents on massage machines
5	\$ 10.4 million	Tokyo DC 27/6/02	Patent on a seed weed machine
6	\$ 6.3 million	Tokyo DC 5/25/73	Design on motorcycles
7	\$ 6.1 million	Shizuoka DC 3/25/94	Patent on vitamin D
8	\$ 6.0 million	Tokyo DC 1/28/00	Patent on needles for surgical operation
9	\$ 3.8 million	Tokyo HC 6/18/98	Design of self-propelled mobile cranes

## Notes on the New Code of Civil Procedure

January 1, 1998, the new Code of Civil Procedure took effect. This is essentially the first overhaul of the civil procedure in Japan since 1926. The entire code was rewritten. The goal of the reform was to make the civil procedure easier to use and more understandable for the people. IP lawsuits are now processed with higher speed and improved efficiency. We have already seen a clear indication that the new code is used well to make litigation process smoother. Some of the numerous changes are outlined below.

### 1. Preparation for Trial

The Japanese court system has been criticized for the extended periods of time that are required to finish civil cases at the district court level. For rather complicated cases, such as those involving patent infringement disputes, it used to take up to five years to go through the district court level. One reason for this was that there were no strong incentives for parties to identify the issues in dispute and the relevant evidence at an early stage of the proceedings. Pertinent information was sometimes withheld until later stages of the proceedings. Also, by comparison to practice in the U.S., the court hearings are quite formal, and a spontaneous and effective exchange of arguments was rare due to a heavy emphasis on written pleading and replies. Moreover, each hearing, which normally lasts less than one-half hour, takes place at intervals of one to three months. To alleviate these problems, the new law provides several forms of well-defined preparatory procedures and encourages having concentrated trial hearings or a more focused witness examination.<sup>43</sup>

### 2. Time Limits on Producing Offensive or Defensive Arguments or Evidence

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<sup>43</sup> Article 182 of the new Code.

The new Code provides that a court can set specific time limits during which each party is required to submit all of its arguments and supporting evidence that are relevant to the disputed issues. Article 156 of the new Code provides that: "Means for attack or defense have to be produced with appropriate timing in accordance with the progress of court proceedings." Willful or negligent delays may result in the rejection of newly produced offensive or defensive arguments.

### 3. Expanded Measures for Collection of Evidence

Japan does not have "discovery,"<sup>44</sup> unlike Anglo-American countries that have adopted this system of evidentiary sleuthing. The obligation to produce documents used to be very limited,<sup>45</sup> often making it very difficult to gather sufficient documentary evidence to assist the court in considering cases. The court might be able to order the production of only limited types of documents, but such order was often ineffective.<sup>46</sup> This was in clear contrast to the provisions concerning witnesses in which a person has a general duty to testify and can refuse to testify only under limited circumstances provided in the old Code.<sup>47</sup> The new provisions concerning more effective collection of evidence will be summarized below.

#### 3.1 Extended Duty to Produce Documents

The new law provides for an expanded scope of duty to produce documents. The duty to produce documents goes to nearly the same extent as for the duty of a witness to appear and testify in the court. The obligation is now general with specifically designated circumstances under which there is no duty being listed in the Code. Those who are not parties in a particular lawsuit also have this duty.

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<sup>44</sup> Discovery provides measures for broad disclosure of relevant information between the parties including what may be used as evidence in the trial. Discovery takes place before the trial without intervention of judges or court and includes six possible procedures: deposition, written interrogatories, production of documents or things, permission to enter upon land or other property, physical and mental examination, and request for admission. Only physical and mental examination requires permission from the court. Deposition or taking of witness testimony, interrogatories or a set of written questions addressed to the other party, and request for admission are most common elements in patent infringement litigation in the U.S. Discovery is generally very expensive because of large amounts of information that has to be disclosed and examined. Discovery available in United Kingdom is more limited than that found in the U.S.

<sup>45</sup> Article 312 of the old Code of Civil Procedure.

<sup>46</sup> According to Articles 316 and 317 of the Code, if the order is not satisfied, the court may regard assertions of the opposing party to the content of the document that was not produced as true. A third party who refuses to comply with an order to produce documents may be fined under Article 318. However, courts historically have shown great reluctance to use such enforcement mechanisms.

<sup>47</sup> Articles 271-281 of the Code of Civil Procedure. While the court has power to subpoena witnesses, it rarely resorts to compulsory measures.

Article 220 of the new Code provides as follows:

"A holder of a document shall not refuse the production thereof in the following cases:

- (1) In case the party himself is in possession of the document to which he has referred to in the litigation;
- (2) In case the person going to prove is entitled to require the holder of the document the delivery thereof or to demand the perusal thereof;
- (3) In case the document has been drawn for the benefit of the person going to prove or for the legal relations between him and the holder thereof;
- (4) Besides the three cases mentioned above, in case the document (excluding a document which a government official or a person who used to be a government official takes custody of or possesses) does not fall in any one of the following cases:
  - a) A document that describes matters that are provided in Article 196 concerning a holder of the document or a person who has one of relationships listed in Article 196 with the holder of the document;
  - b) A document which describes facts provided in Article 197(1)(ii) or matters provided in Article 197(1)(ii), concerning which the duty to keep secret is not exempted; and
  - c) A document that is solely for the use of the holder thereof.

In the above, paragraphs (1) to (3) are essentially the same as in the old statute. Paragraph (4) is new and provides for the general duty of document production. A holder of documents generally has a basic obligation to produce them when ordered by the court. In paragraph (4), item a) is for preventing self-incrimination and incrimination of close family members, and item b) is for the maintenance as secret of facts that certain professionals, such as doctors and attorneys, obtained during his or her professional duties. Item c) means that the holder of, for example, personal diaries or memos for internal use within a company can refuse to produce them.

If the duty exists, the failure to comply with court orders to produce documents may attract court sanctions. If one of the parties does not produce documents despite court orders, the assertion made by the other party in connection with the content of such documents, as well as the facts to be supported by the documents, may be regarded as true by the court. This assumption of facts would represent a significant expansion of the sanctions that could be used to encourage full production. In the case of violation of document production orders against a third party, one who violates the order is expected to face a fine of up to 200,000 yen, which is higher than the current maximum penalty of 100,000 yen for not testifying as a witness.

When requesting the production of certain documents, a party has to file a petition identifying the documents. It is often very difficult, however, to identify a particular document at the time of filing the petition without knowing what the other party really has. The requesting party is now required only to provide some clues that would enable the holder to identify the document.

### 3.2 Examination of Documents by Judges under Secrecy

The new law empowers the court to issue an order for the presentation of requested documents so that the court can independently determine if secrecy is justified, and what should be produced before the court. In such cases, the court's examination will be *in camera*. Only judges have initial access to the produced documents and neither the opposing parties nor their counsels can examine them.

The old Code had no provisions for determining whether a holder of documents requested by one of the parties has an obligation to produce those documents, particularly where the documents may contain trade secret or confidential information. The new *in camera* procedure provides a new tool to discover documents the other party has.

### 3.3 Inquiries

Article 163 of the new law defines a new procedure in which the parties can directly exchange inquiries, termed as *shokaisho*, requesting information and documents without intervention of the court. When a party needs to support its argument or showing, this new procedure makes it possible to directly request the other party to answer certain questions or requests. No penalties are specifically provided against a party who refuses to answer proffered inquiries; however, it is possible for the court to form an adverse impression of the case or use its discretionary power if a party does not respond to the court's urging to answer inquiries.

### 3.4 Protection of Secrets in Civil Cases

Article 92 of the new law includes provisions which would limit access to case records to the parties only. A party can ask for a ruling to restrict the public's access to certain parts of the case records which, if disclosed, would be significantly harmful to its interests. If the requested order for protection is granted, only the opposing party can request an inspection or copies of the particular parts of the case records covered by the order. A third party can request the cancellation of such a ruling.

The old Code provides that, as a rule, any person can inspect all case records. A person with some legal interest in that case may even obtain copies of those records, albeit under somewhat limited circumstances. This is certainly a problem when a lawsuit involves trade secret or privacy issues. For example, the Unfair Competition Prevention Law was amended in 1990 to provide protection over trade secrets. However, in order to obtain effective protection, a company may have to disclose some or even all of its secrets during court proceedings. Such secrets are described in the case record that becomes open to the public. This may in effect deprive the company of long-term protection for its valuable trade secret rights and opportunities to seek remedies before the court.

## 4. Other Items in the new Code of Civil Procedure

The new Code includes various procedural changes with respect to numerous aspects of courts proceedings, such as summons, service procedure, settlements, timing of rendering judgments, and contents of written decisions. Appeals before the Supreme Court are more restricted. Also, new provisions are included on small claim cases and class action suits.

## **Conclusion**

We have quickly reviewed the course of patent infringement lawsuits in Japan. While this paper is by no means comprehensive, it should give you an overall view of what can happen in infringement disputes.

The Japanese patent prosecution system has improved dramatically in recent years.<sup>48</sup> It has become more in line with the approaches taken by the European Patent

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<sup>48</sup> A short summary of the recent patent law amendments is as follows:

### Recent Patent Law Amendments

#### Phase 1

- 1987 Patent Law Amendment (effective Jan. 1988)
  - Multiple claiming as a rule, rather than exceptions
  - Electronic Filing System (Dec. 1990)
- Revised Examination Guidelines (June 1993)
  - Comprehensive revisions on patentability and disclosure requirements, inventive step, etc. in anticipation of TRIPS
- 1993 Patent Law Amendment (effective Jan. 1994)
  - Restrictive amendment practice: EPO and USPTO like approach adopted.
  - Streamlined appeal procedures: amendment of patents became easier.
  - Utility model registered w/o substantive examination. Term is only 6 years.
- 1994 Patent Law Amendment (effective Jul. 95 and Jan. 96)
  - English language patent applications
  - Post-grant oppositions rather than pre-grant oppositions
  - Improved expedited examination (expedited if a corresponding foreign case exists.)
  - Revised requirements on specifications and claims (in line with TRIPS, PCT, EPC)
  - Uniform twenty years patent term (TRIPS)

#### Phase 2

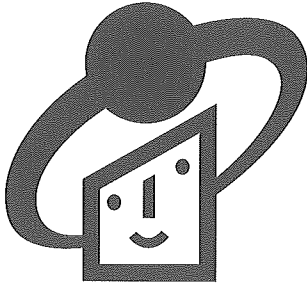
- 1998 Patent Law Amendment
  - Measures for increased damages awards
  - Not restricted to “normal” royalties
  - Fee reduction
- 1999 Patent Law Amendment
  - Stronger enforcement of patents made possible
  - More discretion on the level of causation between damages and infringement
  - Documents production order made easier to issue.



Office and the US Patent and Trademark Office.

Now efforts are more focused on improvements in enforcement areas. It seems that the Japanese courts are responding to what the Japanese society needs: higher efficiency of court proceedings and open attitudes toward new ideas as well as transparency of decision-making processes.

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- Absolute novelty (for applications filed on or after Jan. 2000)
  - Shorter 3 year period for requesting exam (for application filed after Oct. 1, 2001)
  - Another fee reduction
  - 2002 Patent Law Amendment (effective Sept. 1, 2002)
    - Uniform 30 months for PCT National Phase Entry
    - Computer programs protected as a product
  - 2003 Patent Law Amendment
    - Merger of the opposition system into the invalidation proceedings
    - Increased examination fee and reduced filing fee and annuities (overall reduction of applicant's fees)
  - 2004 Patent Law Amendment is before the Diet
    - New provisions for employee invention
    - 10 years term for utility model



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