

Patent Infringement Litigation in Japan

**Japan Patent Office
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The following is an account of patent litigation viewed from the perspective of a prosecution specialist, as I am a *Benrishi* who principally handles the prosecution of patent applications before the Japan Patent Office. In this paper, I will be discussing patent infringement litigation from the standpoint of the defense and primarily for the initial phase of disputes, while taking recent Japanese court decisions into consideration. Also, some of recent litigation-related issues, including the new Code of Civil Procedure and 1998 and 1999 patent law amendments, are summarized.

Patent Attorneys and Attorneys at Law

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*. In order to become an attorney at law, one has to pass the national bar examination. To take and pass this examination, no legal education at college or graduate school levels is required. After passing the bar examination, which is also a required path to become judges and public prosecutors, there is a one and a half years training period at an institution set up by the Supreme Court and other institutions. 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 is about 18,000 in 1999. On the other hand, patent attorneys are professional who are 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 licensing and customs measures. 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 to be a patent attorney. There are about 4,300 patent attorneys in Japan.

In the US, for example, the attorney system is different. To be admitted to a local bar in each State, a degree from a qualified law school, which is normally a result of three-year post-college education, is required. In most States, local bar examination has to be passed. In order to become a patent attorney, which is a common title for an attorney at law who is also qualified to file and prosecute patent applications before the

Patent Office, an attorney at law has to take and pass an examination provided by the US Patent and Trademark Office. Those who passed only the Patent Office examination and do not have bar qualification are called patent agents.

Introduction

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 someone has infringed its patent willfully or negligently,¹ while under 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 prove that it 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 licensee² is entitled to start a patent infringement lawsuit and may send you a warning letter,³ 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.

1/ 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."

2/ 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.

3/ See, for example, Section 100, Patent Law.

Warning Letters

Warning letters play different roles in different countries. In the U.S., lawsuits often begin without any preceding warning letters. Also, in the U.S., two types of warning letters exist: hard and soft warning letters. If an accused infringer is to file a declaratory judgment action, he needs to show that there exists a real dispute. For this, he has to have a hard warning letter that would threaten him with litigation unless he stops his accused infringing acts. A soft warning letter that merely indicates the existence of a patent is not normally enough to validly file a lawsuit. In Japan, in order to file for invalidation proceedings before the Patent Office, showing that you are a competitor in the technical area that is covered by a patent is enough to show the interest required by the law.

The 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 the monopoly in the market.⁴

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 to back up his position. 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 of infringing products.⁵ 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.⁶ If remedies against the infringement are needed on an urgent basis, the patentee can obtain a preliminary injunction

4/ 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."

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 quick remedies.

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.⁷ Also, the patentee may have certain remedies resulting from harm to business or personal reputation caused by the infringement.⁸

First Actions to Take in Response to the Warning Letter

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 such litigation. These basic facts have to be reviewed and confirmed at the Japan Patent Office.

Secondly, a copy of the file history⁹ of the patent in ques-

5/ 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."

6/ Section 100, Patent Law.

7/ 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.

8/ Section 106, Patent Law.

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

tion 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.

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.

Normally, in order to respond to the warning letter, 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 of patent and utility model publications in Japan and other countries. It is also possible to search through academic and non-academic journals and magazines. A variety of databases are available for such searches as an extremely useful tool. In some cases, it may be necessary to go to places like museums to locate non-documentary evidence of public use prior to the patent filing date.

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 the patented invention or discloses the same 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, you have to go directly to the Japan Patent Office, as opposed to a court as in many countries. The Japan court generally does not have authority to find a patent invalid unless the case is on appeal from a Patent Office decision.

Furthermore, if the patentee is overly aggressive and send, for example, letters to many of your clients and business partners warning of your patent infringement, such actions by the patentee may harm your business. If the accusations are unfounded, you can consider to sue the patentee under the Unfair Competition Prevention Law¹⁰ for recovery of damages and injunction orders to force him to stop such actions.

Does It Really Have To Be Done At the Patent Office? - Invalidation

On April 11, 2000, the Supreme Court reversed the precedents set by its predecessor court in the Kilby patent case¹¹ 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. The Japanese Patent Law provides that the Japan Patent Office has the right to invalidate patents, and it was believed to mean 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." The Japanese Patent Law provides that the Japan Patent Office can invalidate patents, and it used to be believed that it was not possible for the infringement court to find a patent invalid before the Japan Patent Office decides on that issue.

Interpretation of Patent Claims

In order to determine whether there is an infringement or

10/ 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.

11/ Dr. Kilby was awarded a Nobel Prize in 2000 for his inventions of integrated circuits.

not, it is necessary to first compare the patented claims and your product or method. It is very important to note that this judgment has to be made based on the claims. There may be definitions of some terms used in the claims located in the body of the specification, or the claims in and of themselves may not be clear, then it may be necessary to refer to the text of the patent. However, the patent claims always form the primary basis for considering the existence of infringement. It is not normally permitted to interpret the claims as narrow as specific embodiments disclosed in the specification unless you have good reasons to do so.

Section 70, 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 patent infringement in general. They will be discussed in the following.

1. Literal Infringement _____

As a first step, check if the allegedly infringing product or method contains all the features or limitations recited in any of the patented claims in the disputed patent. If the answer is affirmative, there is a literal infringement, and in many cases, it is better to admit the 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.¹²

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

12/ So-called "designing around."

takes positions 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 is missing one or more steps or limitations found in the claimed method, no literal infringement would be found by the court.

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 Equivalents

The doctrine of equivalents gives the patentee a broader interpretation of claims based on the understanding that it is often very difficult to provide adequate patent protection, if no exceptions are provided beyond the literal interpretation of the patented claims. In recent court decisions,¹³ the Tokyo and Osaka High Courts provided affirmative views on the application of the doctrine. Further, on February 24, 1998, in an appeal filed by the accused infringer in the 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;

13/ THK v. Tsubakimoto (concerning a ball spline bearing), Tokyo High Court, February 1994; and Genentech v. Sumitomo Pharmaceuticals (concerning human tissue plasminogen activator (t-PA)), Osaka High Court, March 1996.

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. The Supreme Court included the last two conditions as essential part for the correct application of the doctrine in addition to the first three conditions. 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. Also, in a different Tokyo High Court decision¹⁴ in the *Texas Instruments v. Fujitsu* case involving the famous Kilby patent, presiding Judge Makino suggested the use of the time of infringement as a reference for determining the ease of replacement.

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

14/ This judgment was rendered on September 10, 1997 (case No. 1994 (ne) 3790). No infringement was found on the nearly 40 years old patent *Texas Instruments* owned. While the Tokyo High Court commented on the doctrine of equivalents in general, it did not base its judgment on the doctrine.

estoppel,¹⁵ which is well recognized and established as defense in most 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 mere 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 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.

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. Elements considered by courts in different countries are often surprisingly similar, but the actual application of such elements may vary considerably from one country to another.

In the recent Festo case,¹⁶ 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. 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 are clearly moving to limit the availability of the doctrine of equivalents, in favor of certainty on the scope of patent protection. Also, in the proposed amendment of the European Patent Convention, the well-known protocol to Article 69 of EPC is to

15/ 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.

16/ FESTO CORPORATION v. SHOKETSU KINZOKU KOGYO KABUSHIKI CO., LTD., No. 95-1066. Decided November 29, 2000.

be revised. According to the current proposal, it is clear that the scope of protection is not limited to the wording of the claims but extended to equivalents. The proposed Protocol on the Interpretation of Art. 69 EPC is amended by adding Articles 2 and 3. In accordance with Article 2, in the determination of the scope of protection due account shall be taken of means which at the time of the alleged infringement are equivalent to the means specified in the claims. In accordance with Article 3 of the proposed Protocol, the prosecution history estoppel, which has been dealt with differently by different courts, will become recognized in all EPC countries. These proposed changes are, at least superficially, in line with the Japanese Supreme Court decision mentioned above.

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.

Moreover, if someone produces a kit which contains all the elements that form the claimed product and a person 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 68,¹⁷ 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 provisions¹⁸ that regard such acts as another form of infringe-

^{17/} Supra.

ment, 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.

Review 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. Now it is necessary to review the defensive position against the patentee.

1. Reexamination of Your Patent Portfolio

The patents you have in your portfolio need to 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 raised and an offer to cross license can be made. This will strengthen your position during negotiations.

2. Prior User Right

The date on which the product or method began to be made or used or substantial preparation thereof 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.¹⁹ 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

18/ 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)"

transit (Section 69(2), Patent Law as well as Article 5ter, Paris Convention).

3. Experimental Use

Under Section 69(1), 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 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 an awaited 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 two recent decisions by the German Supreme Court 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 found no patent infringement for experiments done by generic drug makers during the patent term. This is a complete reversal

19/ 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.

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 used to be adopted by different courts in Japan, and the above Supreme Court decision put an end to confusions.

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), Patent Law.

4. Compulsory Licenses

The Patent Law allows the granting of compulsory licenses for implementing dependent, i.e., related inventions.²⁰ It also provides for compulsory licenses for the use of inventions that have not been used for an extended period of time²¹ as well as compulsory licenses on patented inventions in the interest of the general public.²²

When a patent invention is implemented, such use may result in the implementation of another patented invention which has a prior filing date and which is owned by another party. This type of situation occurs when a patent is granted on an improvement on 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

20/ Section 92, Patent Law.

21/ Section 83, Patent Law.

22/ Section 93, Patent Law.

invention cannot be utilized,²³ impeding further development of technology and industry. Therefore, the Law provides procedures for granting compulsory licenses on the basic invention by going through a prescribed arbitration process.

The Law also provides for the granting of similar licenses when a patented invention has not been utilized over an extended period of time, so as to encourage patentees to utilize their patents. Compulsory licenses may also be granted when it is clear that the public will enjoy large benefits if an unused patented invention is implemented.

Several applications have been filed to initiate the arbitration process; however, 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.²⁴

Reply to the Warning Letter

Normally, a requested date for a reply is stated in warning letters. 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, while setting 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.

23/ Section 72, Patent Law.

24/ 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."

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 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 such in your reply to the patentee. It is possible that the patentee simply did not know the existence of prior art references which would inval-

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 exclude 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.

B2. File for invalidation proceedings

Unlike many other countries where you can contest the validity of a patent before the same court that is considering the question of infringement, in order to invalidate a patent in Japan it is necessary to separately request the Patent Office to invalidate the patent. If the Patent Office, and the Tokyo High Court if appealed,²⁵ 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 invalid. The determination made by such court is binding to the parties only. In order to get rid of a patent entirely or without an infringement lawsuit, it is still required to go to the Patent Office first.

Normally the court is unwilling to halt or stay the proceedings of the 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. Unless it is very clear that a patented invention lacks novelty, the court presumes that the patent is valid regardless of the ongoing invalidation proceedings before the Patent Office.

25/ The Tokyo High Court has exclusive jurisdiction over cases which are appeals from decisions made by the Appeal Department of the Japan Patent Office.

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. The advantage of filing a suit before the other party does lies in your ability to have your choice of court. Normally, more than one district court has jurisdiction over your dispute. If you file a suit first, you can have your choice of court. Having a court decide to transfer a case to another court is not easy while it is not impossible.

Beginning Litigation and Going through It

After going through the above steps, you may decide to bring a declaratory judgment action. The Tokyo and Osaka District Courts have special divisions for IP matters. At the Tokyo District Court, three divisions are specializing in IP matters. Each division has three or four judges. Therefore, you may want to bring a suit there to find judges more familiar with patent disputes than those in other courts. In order to bring this type of lawsuit, or any lawsuit in general, it is necessary for a plaintiff to show that he has substantial interest in the case.

Conversely, the patentee may bring two types of lawsuits, either independently or simultaneously: the so-called main suit (*Honso* in Japanese) and a petition for preliminary injunctions (*Karishobun* in Japanese), as discussed above. The main suit is a normal type of proceedings. After the plaintiff files a complaint, some form of preliminary hearings and formal hearings take place at intervals of one to three months. Each hearing is normally short, lasting less than half an hour unless the examination of witnesses is involved. The Japanese court has a strong tendency to rely on written documentation submitted by the parties. The main suit takes one and a half years to four years to come to

a conclusion. Within the framework of judicial reforms that are going on some time now in Japan, the court proceedings are becoming faster.

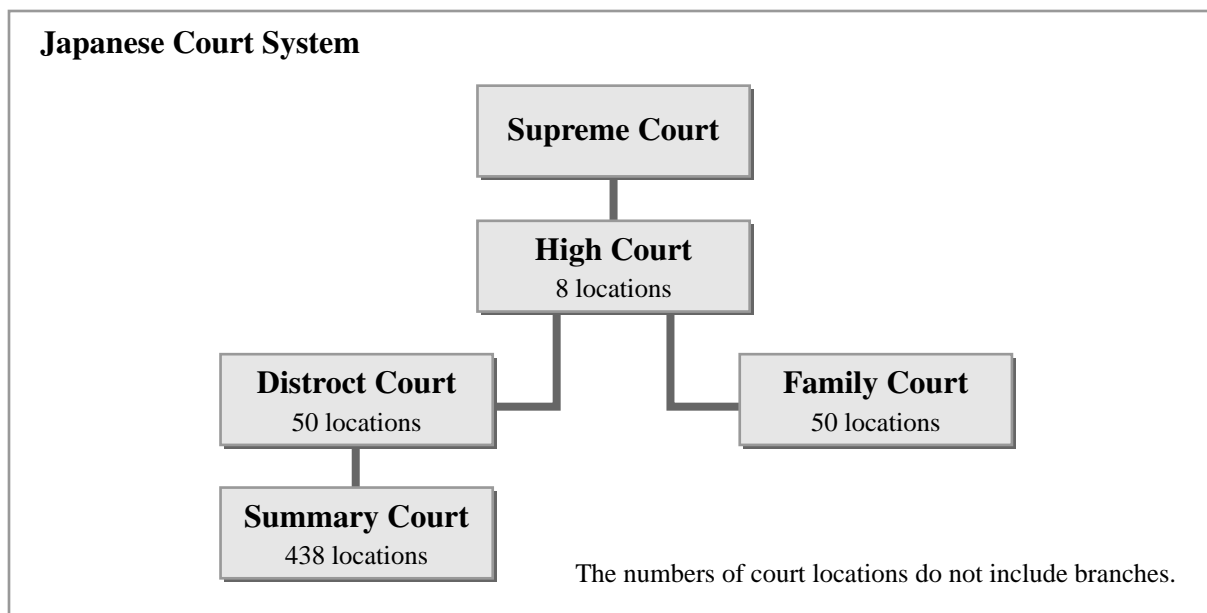
The preliminary injunction cases should, in principle, proceed faster than the main suit. However, if there are unresolved issues such as the scope of the disputed patent, the court may not be willing to decide in the preliminary injunction action any sooner than in the corresponding main suit. Even in preliminary injunction cases, the court hears both parties, while the evidence that it can examine is limited to documentary evidence and witnesses who voluntarily appear before the court.

Settlements are very often encouraged within the framework of litigation by the judges hearing the case. It is also possible to have negotiations with the other party in addition to and aside from the lawsuit.

Appeals

If a decision in the main suit rendered by a District Court is not satisfactory, it is possible to file an appeal before the High Court that has jurisdiction over the particular District Court. The High Court in this case is another trial court, so it is possible to raise questions concerning facts before this court as well. No juries are involved at any stages of court proceedings. The proceedings at the High Court are a continuation of what has been done before the District Court. From a High Court decision, appeal is possible to the Supreme Court, but it considers only questions related to the interpretation of the Constitution and law. The Supreme Court consists of 15 judges. The grounds for appeals to the Supreme Court are essentially limited to cases where the decision has been made based on a wrong interpretation of the Constitution or otherwise it violates the Constitution. With a petition for an appeal, the Supreme Court has the discretion whether or not it accepts the review of decisions that seriously violate law 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.



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 is to make the civil procedure easier to use and more understandable for the people. IP litigations 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. The Supreme Court, which drafted new court regulations under the new code, has indicated that the pendency time of court cases should be shortened by 40%. To certain extent, it has become easier for the patentee to obtain documentary evidence from the infringer. Some of the numerous changes are outlined below.

1. Jurisdiction

Only for intellectual property related cases, a plaintiff can choose between the Tokyo or Osaka District Court and a district court that would otherwise have jurisdiction under the old Code.

Each of the Tokyo and Osaka District Courts offers the advantage of having specialized intellectual property divisions. The new provisions provide parties who cannot, under the previous system, bring actions before the Tokyo or Osaka District Court with an option to have judges with more specialized experience consider their cases.

2. Preparation for Court Hearings _____

The Japanese court system has been criticized because 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 district court proceedings. One reason for this is that there are no strong incentives for parties to identify the issues in dispute and the relevant evidence at an early stage of the proceedings. Pertinent information is 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 is 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 to have concentrated formal hearings involving witness examination.²⁶

3. Time Limits on Producing Offensive or Defensive Evidence —

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 means.

26/ Art. 182 of the new Code.

4. Expanded Measures for Collection of Evidence ———

Japan does not have "discovery,"²⁷ unlike Anglo-American countries that have adopted this system of evidentiary sleuthing. The obligation to produce documents used to be very limited,²⁸ 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.²⁹ 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.³⁰ The new provisions concerning more effective collection of evidence will be summarized below.

4.1 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; specific circumstances under which there is no duty are listed in the Code. Those who are not parties in a particular lawsuit also have this duty.

27/ 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 amount of information that has to be disclosed and examined. Discovery available in United Kingdom is more limited than that found in the U.S.

28/ Art. 312 of the old Code of Civil Procedure.

29/ According to Arts. 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 unproduced document as true. A third party who refuses to comply with an order to produce documents may be fined under Art. 318. However, courts historically have shown great reluctance to use such enforcement mechanisms.

30/ Arts. 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 law. 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.

4.2 Examination of Documents by Judges under Secrecy

The new law empowers the court to order 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 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 to litigation 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 held by the other party.

4.3 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 allows it 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.

4.4 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. An interested person 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 for 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.

5. 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 judg-

ments, 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.

In short, these changes to the Code of Civil Procedure signaled the beginning of a major shift in Japan's judicial procedures and practice toward a harmony with those already adopted in the Anglo-American legal systems as well as with the reality of the modern Japanese society.

1998 Patent Law Amendment

In a drive to bring about a pro-patent era in Japan, the Japan Patent Office moved to amend the Patent Law for stronger enforcement of patent rights. The Diet passed a bill for law amendment in April 1998. Most of the changes in the amendment took effect on January 1, 1999.³¹

Under the amended Patent Law, the court is freed from the constraint of an "average" royalty in the calculation of damages. The term "reasonable" which used to be found in the provisions of Section 102 Patent Law setting the minimum level of damages awards for patent infringement and which reads more like "normal" or "averaged" in Japanese was cited as one of reasons for conservative damages awards found by Japanese courts and is now removed from Section 102. Penal sanctions became harsher under the amendment. The patent annuities that are required to maintain granted patents were reduced toward the end of the 20 years patent term. The design protection was overhauled.

1999 Patent Law Amendment

May 1999, the Japanese Patent Law was amended again.

31/ A few exceptions to the effective date of January 1, 1999 include the patent annuity reduction, which took effect on June 1, 1998 and the electronic filing and prosecution of design and trademark applications, which was commenced in January 2000.

The reform includes five major groups of changes.

(1) Shorter Term for Requesting Examination

The term for requesting deferred examination will be shortened to 3 years from the current 7 years for patent applications filed on or after October 1, 2001.

(2) Absolute Novelty

Knowledge or acts, including Internet publications, outside Japan is now a novelty bar in Japan.

(3) Stronger Enforcement against Patent Infringement

Remedies for infringement have been strengthened. For example, the court may order certain documents to be produced so as to prove acts taken by the other party in an infringement lawsuit. The court can appoint accounting experts for calculation of damages and obtain opinions or reports from them. The level of causation required by the court to relate infringing acts to damages is now lower. Criminal sanctions have become harsher for corporations in connection with fraud and false marking. Extension of patent terms is allowed for lost patent terms of less than two years.

(4) Fee Reduction (Again!)

Certain Patent Office fees were reduced once again. Annuities and fees for requesting examination were lowered by about 8% on average. Also, small entities now enjoy further reduced annuities and fees for requesting examination. This represents the second round of recent fee reductions. In 1998, JPO reduced annuities.

(5) Japan Joins Madrid Protocol.

Japan joined the Madrid Protocol on March 14, 2000. The necessary changes were made in the Trademark Law.

Conclusion

We have quickly reviewed the course of patent infringement

litigations 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.³² It has become more in line with the approaches taken by the European Patent Office and the US Patent and Trademark Office. Further improvements will come, and the possibility of a global patent system is taking its shape.

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. The Japanese courts will surely render more decisions that should merit international attention.

32/ A short summary of the recent patent law amendments is as follows:

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)

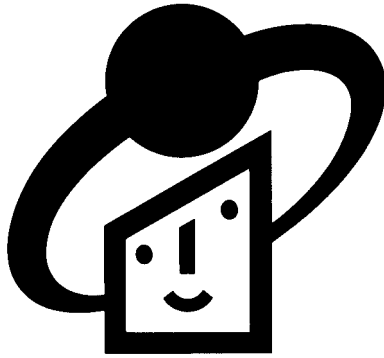
- English language patent applications
- Post-grant oppositions rather than pre-grant oppositions
- Improved expedited examination (expedited if a corresponding foreign case exists.)
- Revised requirements on specifications and claims (in line with TRIPS, PCT, EPC).
- Uniform twenty years patent term (TRIPS).

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.
- 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



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