Patent Litigation in Japan and Germany: An Introduction

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The editor of this special issue of the *Zeitschrift für Japanisches Recht*, *Guntram Rahn*, has kindly asked me to write an introduction to the following contributions on aspects of patent enforcement in Japan and Germany. The papers are updated and enlarged versions of a symposium on "Der Patentverletzungsprozeß in Japan und Deutschland" held on the premises of the European Patent Office on 23 September 2009. Two contributions about infringement proceedings in Mannheim and Munich have been added to round off the picture of patent litigation procedure in Germany. The papers deal with three key topics that I would like to introduce in the following pages: patent infringement procedures as such (I.), the relationship between infringement and invalidity (II.), and the calculation of damages (III.).

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I. THE MYTH OF THE RELUCTANT LITIGANT

There are few fields in law that are as dominated by mutually misconceived perceptions in Japan and the West as the field of litigious resolution of disputes. The Japanese are huge admirers and often avid readers of Jhering's *Kampf ums Recht*, while Germans are often told by Japanese that litigation is simply out of the Japanese character, a thesis that was lent academic credence by an eminent Japanese law professor who wrote in 1948:

> I do not think that the costs and long delays of lawsuits are a sufficient explanation for the low number of lawsuits in Japan. Rather, the discrepancy between the Japanese legal consciousness and the current legal system is of far greater importance. Traditional legal consciousness in Japan does not regard rights and obligations as clear and defined facts. Yet the current legal system that was adopted from the West aims at clarifying and defining legal rights and obligations of both parties on the basis of established facts. Such a black and white decision destroys the basis of an amicable and cooperative relationship that developed especially because the framework of rights and duties were not clearly defined. In the traditional sense, raising a claim must therefore be regarded as a public challenge or declaration of war.[1]

But most commercial litigants in Germany are neither as pig-headed as Michael Kohlhaas nor are the Japanese shy and withering wallflowers, and *Guntram Rahn* in his profound work *Legal Thought and the Concept of Law in Japan*[2] did a lot to debunk the myth of the litigation-averse Japanese. While cultural traits should certainly not be discounted, shortcomings in the Japanese enforcement system played their part in the low number of lawsuits. When compared to the practice today as described in the following chapters, it shows how far things have changed.

Until the mid-1990s, a "typical" court action was held in about ten hearings with intervals of two months each, and such hearings would often last only three minutes each in order to exchange pleadings and arguments.[3] The old Code of Civil Procedure 1926 gave the parties significant leeway regarding the timing of hearings and the presentation of evidence and legal arguments (satirically termed *samidare*, as hesitant as Japanese spring rain). The new Code of Civil Procedure 1998, which in this respect draws heavily upon the German experience with the "Bender" reforms of civil procedure in the 1970s, requires more clarity for the briefs as such and introduces a preliminary hearing to clarify the issues in dispute. In intellectual property matters, Section 104-2 Patent Act introduced an obligation by the defendant to do more than just make a

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1 KAWASHIMA, *Nihon-jin no hō ishiki* [The Legal Consciousness of the Japanese People] 139 (Tokyo 1967).

2 GUNTRAM RAHN, Rechtsdenken und Rechtsauffassung in Japan (Munich 1992). In this connection, also JOHN O. HALEY with his equally stimulating article on "The Myth of the Reluctant Litigant", 1978 Journal of Japanese Studies 359, has become a classic (*http://faculty.washington.edu/swhiting/law573/Haley.pdf*).

3 NISHIGUCHI ET AL., Hanrei Taimusu 846 (1994) 10.

bare denial.[4] Rather, the "adverse party must clarify the concrete embodiment being the subject matter of his own acts". This has significantly helped to speed up procedures. In addition, Section 157 CCP allows the court to reject facts or arguments filed unduly late.[5] While this provision was hardly applied prior to 1998,[6] the courts are now more assertive in exercising their discretion in this respect.[7]

Moreover, a significant number of problems related to civil procedure centred around evidence and proof. For one, parties in a civil suit in the past had only limited recourse towards obtaining written (documents) or oral (affidavit) evidence from the other party. Systems of pre-trial discovery (the US), the *saisie contrefaçon* (France), or the Anton Piller Order (UK) were unavailable, a situation not unlike the one in Germany where the *Besichtigungsanspruch* in a 1985 decision was essentially emasculated by a most literal interpretation of "inspection".[8] While things in Germany have changed as a result of the European Enforcement Directive 2004/48/EC, the Japanese courts can now order "the other party to produce documents necessary for the proof of alleged infringement or the assessment of damages caused by the infringement" (Section 105(1) Japanese Patent Act).[9] In the past, submission of documents was often opposed for the reason that trade secrets were involved. After the Tokyo High Court found that "the intention of protection of trade secrets is not a legitimate reason for withholding relevant documents that may be of importance to the other side",[10] the introduction of Section 105(2) allowed the court to inspect documents requested by one party in order to determine if there is good reason for withholding such documents.[11] The assessment of the court is not open to review, as the other party does not see the documents.[12] Procedures for protecting the secrecy of documents are also in place (Section 105-4 Japanese Patent Act).[13]

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4 See the English translation of Section 104-2 PA in Appendix.

5 See Appendix.

6 YOSHINO, Die neue Diskussion um die Prozeßbeschleunigung in Japan, Recht in Japan 8 (1991) 65, 67.

7 Tokyo High Court, 31 October 2002, 2003 AIPPI Japan English Edition 359 – *Anti-Allergic Agent*. Here, in a patent infringement suit, the defendant was slow and reluctant in producing relevant documents, which caused a tremendous delay in proceedings. In addition, the defendant frequently changed the basis of its argumentation. As this continued on appeal, the appeal court ruled in favour of the plaintiff, on the grounds that the defendant had failed to overcome the statutory presumption of infringement (the case concerned a manufacturing process) since its arguments in this respect were filed too late.

8 German Federal Court of Justice, 8 January 1985, IIC 18, 108 – *Pressure Beam*.

9 See Appendix.

10 Tokyo High Court, 20 May 1997, IIC 30 (1999) 452 – *Sale of Pharmaceuticals*.

11 See Appendix.

12 *See e.g.* Osaka District Court, 4 December 2001, IIC 34 (2003) 203 – *Cogwheel*. Here the court inspected the documents and the allegedly infringing device and ultimately decided that the latter was not deemed infringing. It is, of course, difficult for the plaintiff to argue infringement without ever having seen the device. Section 105(3) allows for a court inspection of objects and thus complements the provision on an inspection of documents.

13 See Appendix. These secrecy orders by the court are applied rather pragmatically (Osaka District Court, 18 April 2008, GRUR Int. 2010, 79 for third parties; Osaka District Court,

In his overview, *Guntram Rahn* joins *Marcus Grosch* and *Sabine Rojahn* (for Germany) and *Eiji Katayama, Yoshikazu Tani and Motoaki Suzuki* (for Japan) in mentioning further details of how court hearings in patent infringement matters are conducted both in Germany and Japan, how litigation strategies can be laid out, and what the role of attorneys and patent attorneys is in these procedures.

The other chapters of this book deal in more detail with two issues that can justifiably be seen as the most important ones for patent enforcement: the relationship between infringement and invalidity, and the assessment of damages. Both issues deserve a closer look.

II. PATENT INFRINGEMENT AND VALIDITY: LESSONS FROM JAPAN

The relationship between patent infringement procedures and the objection of invalidity has been of considerable practical importance and comparative interest. After all, the main defences against patent infringement are, first, that the act performed by the defendant does not infringe and, second, that the patent is invalid or unenforceable.

There is a certain divide in this matter. Anglo-American systems tend to give the courts the power to invalidate patents if so requested as a counterclaim to an infringement action, or even in isolation, while the Patent Office does not enter the fray. France and Italy have given the courts the same powers, but for a different reason: the Patent Office does not examine patents as to the requirements of patentability, and therefore there is no perceived conflict between the administrative decision of grant, and a possibly contradictory one of invalidating such a grant. This is (or was) different for countries such as Germany[14] and China,[15] and until recently Korea,[16] where the courts in an infringement action do not allow the defendant to raise the issue of validity. The underlying rationale for this bifurcation is that an administrative decision such as the grant of a patent should be reviewed by an administrative body. In China, this is the Patent Office (SIPO), and in Germany, the Federal Patent Court (Bundespatentgericht). In Germany, the division between the infringement courts and the Bundespatentgericht seems rather settled, and the points of interest are mentioned in the contribution of *Peter Meier-Beck*. It is currently too early to say whether and in what form the German divi-

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25 December 2008, GRUR Int. 2010, 80 for a subsequent revocation of the order) and also apply to interim proceedings: Supreme Court, 27 January 2009, IIC 41 (2010) 858 – *Secrecy Order*.

14 The German Federal Patent Court has exclusive jurisdiction in regard to the invalidation of German patents and extended European patents that are no longer subject to opposition/ appeal procedures.

15 GANEA / PATTLOCH, Intellectual Property Law in China (Kluwer Law International 2005) 305.

16 Until the decision of the Korean Supreme Court, 28 December 2004, German translation in GRUR Int. 2006, 617.

sion will find its place in a future European patent litigation system. Also against this background of possible future development of the European systems, experiences from Japan in switching from one system to the other are of considerable interest. While *Ryoichi Mimura* in his chapter sets out the current court practice, a historical introduction may help the reader to better understand the issues involved.

1. The Kilby *Decision of the Japanese Supreme Court*

In Japan, it had always been clear that only the Patent Office has jurisdiction over invalidating a registered IP right, either by request of an interested party (patent law) or the public at large (trademarks). In the case of trademarks, the courts have long refused enforcement in cases where the trademark should not have been registered in the first place[17] or was prone to cancellation.[18] Things were far more complicated for patents. Here, decisions of the Imperial Supreme Court of 1904 and 1917 had held that the objection of patent invalidity would give the court discretion to stay procedures, yet not to regard the patent as invalid.[19] Invalidation procedures before the Patent Office were not only slow, but both parties could even supply the Tokyo High Court with completely new facts on appeal.[20] In circumstances where the patent was presumably invalid, the courts sometimes tried to narrow the patent's scope,[21] or grant the defendant a prior user right.[22]

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17 E.g. Kobe District Court, 21 December 1982, Mutaishū 14-3, 813 – *Dorothee Bis*. In this case, a former distributor of the French fashion designer "Dorothee Bis" had registered the mark while still distributing Dorothee Bis goods. The court held that the goodwill rested only in the French fashion undertaking, not the registered trademark owner, and thus refused enforcement of the mark.

18 Supreme Court, 20 June 1990, IIC 25 (1994) 118 – *Popeye Scarves III*. In this case, the Supreme Court held that the registered mark even at the time of registration conflicted with an existing copyright and should thus be cancelled. Cancellation procedures at the Patent Office seemed to take forever as the Patent Office apparently was unable to make up its mind about the cancellation request already filed years earlier.

19 Imperial Supreme Court, 23 April 1917, Minroku 23, 654: "If a new commercial model has been registered as a utility model … it is not permissible to deny the validity unless the right has been declared null and void in invalidation procedure."

20 Supreme Court, 4 April 1968, Minshū 22-4, 816. The invalidation procedure has two further disadvantages. First, the Patent Office and the courts would only examine the reason of invalidation as argued by the petitioner, rather than make a general assessment of patentability (Supreme Court, 10 March 1976, Minshū 30-2, 79 – *Knitting Machine*). Second, the patentee can almost endlessly prolong an invalidation procedure by requesting an amendment of the patent before the end of the invalidation trial, as this trial would then have to be repeated in light of the amended patent (Supreme Court, 9 March 1999, Minshū 53-3, 303 – *Rectangular Steel Pipe*, and Supreme Court, 22 April 1999, Hanrei Jihō 1675, 115 – *Calendar*). Should the amendment not be accepted, the patentee can of course appeal against this decision, too.

21 E.g. Osaka District Court, 25 March 1993, Patent 11/1994, 121.

22 E.g. Nagoya District Court, 31 July 1991, Tokkyo Kenkyū 15, 3.

This somewhat unsatisfactory state of affairs was changed only in the Supreme Court's *Kilby* (or TI – the inventor was Mr Kilby, and the patent was owned by Texas Instruments) decision of 11 April 2000[23] that held in a rather unprecedented dictum:

> 1. The court that examines a case of patent infringement may judge whether or not the patent is invalid, even before a patent annulment decision of Japan Patent Office becomes final.
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> 2. If it is found that there are obvious reasons for holding the patent invalid as a result of the court hearing, a claim for injunction, damages, etc., based on the patent is deemed an abuse of rights unless there are special circumstances.

Before this decision and based on the precedents cited by the court, it had been assumed that the court could not judge the validity of a patent, as this was a matter for the Japanese Patent Office to decide. According to this decision, however, a patent right, registered with the JPO, is a civil right, and a court in an infringement case can judge the scope of a patent. Second, the decision states that if there are obvious reasons for holding the patent invalid as a result of the court hearing, a claim based on the patent is deemed an abuse of right. Here, the court only holds the exercise of the patent right an abuse of right, but does not declare the patent invalid. The court finds the precedent of the Imperial Supreme Court is contrary to the spirit of equity and against the economy of legal procedure. A similar reasoning was already adopted previously when the court found the patent lacked novelty and was thus invalid.[24] Unlike previous decisions, however, the *Kilby* decision no longer requires the courts to demonstrate specific circumstances of the case for holding a patent invalid, but lets obviousness be a sufficient reason.

2. *Post*-Kilby

Subsequent decisions affirmed that the grounds for holding a patent invalid could relate to a lack of novelty[25] or inventive step,[26] insufficient disclosure[27] or misappropriation.[28] The new approach towards invalidity may have speeded up procedures, but it is not necessarily beneficial to the patentee. According to statistics, the patentee's success rate in infringement procedures was a mere 24% of the 70 cases where the objection of invalidity was raised after the Supreme Court's decision.[29] According to information

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23 Japanese Supreme Court, 11 April 2000, IIC 35 (2004) 91 with comment by HEATH and MOHRI = GRUR Int. 2004, 154 with comment by Petersen.

24 Nagoya District Court, 26 November 1976, Hanrei Jihō 852, 95.

25 Tokyo District Court, 14 July 2000 (unreported); Osaka District Court, 5 September 2000 (unreported).

26 Tokyo District Court, 27 September 2000 (unreported).

27 Tokyo District Court, 25 April 2001 (unreported).

28 Tokyo District Court, 30 January 2001 (unreported).

29 Reported in Japan Patents and Trademarks 111 [February 2002] 12.

supplied to the author by former presiding judge *Ryoichi Mimura*, alleged invalidity was affirmed by the courts in about half of the infringement cases. This also had repercussions on the Patent Office's handling of invalidation procedures. While between 1997 and 1999, requests for an invalidation trial had a success rate of 10-15%, this escalated in 2001 to almost 50%.[30]

Current practice before the courts has shown that the objection of invalidity is successful even in cases that are not "obvious". This in effect has given the courts a parallel jurisdiction over patent invalidation matters, albeit limited to an *inter partes* effect. It is thus conceivable that the courts find a patent invalid, yet that the Patent Office in subsequent invalidation procedures upholds the patent. What should happen in these cases is unclear, and as the law stands at the moment, there is no remedy for the patentee should the court decision already have become final.

The legislature has partly responded to the above changes. A Patent Amendment Act was promulgated on 23 May 2003 and provides for a merger of opposition and invalidation procedures, yet does not fundamentally change the procedures before the Patent Office. The new system came into force on 1 January 2004 and applies to all patents granted after that date.

In a further legislative change of 2005, the power of the courts to hold patents unenforceable has been clearly stated in Section 104-3 Patent Act that now reads:

> (1) Where, in a lawsuit concerning the infringement of a patent right or an exclusive license, the said patent is recognized as one that should be invalidated in a patent invalidation trial, the patentee or exclusive licensee cannot exercise their rights against the adverse party.
>
> (2) Where the court recognises that means of attack or defense under the preceding paragraph are submitted for the purpose of unreasonably delaying the proceedings, the court may, upon request or by its own authority, render a ruling rejecting their submission.

3. The Law of Unintended Consequences

So far, so good. While allowing the objection of invalidity may have solved some problems, it turned out that it created a number of others, mostly due to the fact that procedures before the courts and the Patent Office were unrelated to each other.

Under the current law, the courts (according to Section 6 Code of Civil Procedure, those of Tokyo and Osaka)[31] can hold the patent invalid *inter partes*, and the Patent

30 1997: 184 invalidation requests, upheld in 22 cases; 1998: 252 invalidation requests, upheld in 46 cases; 1999: 293 requests for invalidation, upheld in 27 cases; 2000: 296 requests for invalidation, upheld in 77 cases; 2001: 283 requests for invalidation, upheld in 138 cases. Source: TOKKYO CHŌ, *Tokkyo gyōsei nenji hōkoku-sho* [Annual Report on Patent Administration] (Tokyo 2002) 183.

31 See Appendix.

Office can invalidate the patent *erga omnes.* Technical expertise of the courts is ensured by so-called court research officials from the Patent Office (six in Tokyo, five in Osaka) that are meant to assist the judges in technical matters. These assistants are normally dispatched from the Patent Office for a period of three years.

Infringement and invalidation proceedings may be conducted concurrently, subsequent to each other or in isolation, creating all sorts of legal problems. As if this was not enough, the patentee can request *ex parte* limitation proceedings before the Patent Office, often in response to the court holding the patent invalid *inter partes*. Different from most common law countries, the courts in Japan still cannot declare the patent invalid, and they cannot limit the scope of the patent by request of the patentee. In limitation proceedings, the patentee has the advantage of dealing with the Patent Office in the absence of any third party, but is significantly inconvenienced by the fact that the Patent Office in such proceedings does not accept auxiliary requests.

In one of the subsequent cases that went up to the Supreme Court, the patentee in response to a finding of invalidity by the infringement court, tried to limit his patent in order to distinguish the patent from the prior art which the infringement court had found prejudicial to the maintenance of the patent. Yet it took the patentee five attempts to successfully limit the patent, and the infringement case had meanwhile arrived at the Supreme Court,[32] which held as follows:

> A patentee whose patent has been regarded as invalid by the courts can only be heard with the argument that such patent was successfully upheld in amended form in a correction trial before the Patent Office where such trial was conducted without unreasonable delay.

In the case at issue, the Supreme Court found that it was too late to consider the limitation. Patentees have therefore tried to request amendments to the patent in a timely manner, but the courts are not entirely clear what this should encompass.

In a recent case, in order to overcome the estoppel of invalidity, the patentee suggested an amendment of the patent to the court that would overcome the prior art objections while still making the defendant's device fall into the scope of the patent claims. The first instance court[33] dismissed the action, but stated three requirements for a suggested patent amendment to be considered by the court:

1. the plaintiff has already requested a correction trial before the Patent Office and submitted a new wording of his claims;
2. the limitation is able to overcome the prior art against which the patent is deemed not novel or non-inventive; and
3. even after the limitation, the defendant's device will fall within the scope of the amended patent.

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32 Japanese Supreme Court, 24 April 2008, IIC 40 (2009) 721 – *Knife-Processing Device*.
33 Tokyo District Court, 27 February 2009, Hanrei Jihō 2082, 128.

The IP High Court dismissed the appeal, but held that only the first of the above three requirements was necessary for a patentee to counter the invalidity defense.[34]

A case of the Tokyo High Court dealt with the reverse situation that the court had found the patent valid and infringed, yet the Patent Office had ultimately revoked the patent. In this situation, the court allowed for a re-opening of proceedings to account for the fact that the patent had been invalidated:[35]

> The fact that the courts dealing with patent infringement may hold the patent valid or invalid *inter partes* does not preclude a re-opening of a final and conclusive decision establishing validity and infringement of the patent where the latter has subsequently been declared invalid *erga omnes* by the Patent Office.

While certainly correct, this possibility creates legal uncertainty.

A final issue that deserves mention is the different treatment of *res iudicata* (issues or decisions that have become final and conclusive) between procedures for limitation and procedures for invalidation, both before the Patent Office. According to the Supreme Court,[36]

> Subject matter of limitation procedures according to Section 126 Patent Act[37] is the patent as a whole, while in cases of *inter partes* revocation procedures under Section 123,[38] the decision may only relate to certain claims and the patent can be partially upheld if only certain claims are deemed invalid.

This complicates things quite a lot where, for example, invalidity of claim 1 has been acknowledged by the Patent Office, but not invalidity of the subclaims. If this decision is appealed, the subject matter of the appeal is only claim 1, while the remainder of the patent is not subject to the proceedings, as it is no longer in dispute. If on appeal the patentee proposes amendments, these may have unforeseen consequences for the dependent subclaims – a somewhat odd situation.

The strict split between infringement and invalidity proceedings practiced in many Asian jurisdictions – China, Taiwan, Japan and Korea – has been overturned by court practice in Japan and Korea. Other jurisdictions may well follow. This will lead to a speeding up of proceedings in general, but, as the Japanese example demonstrates, may lead to unforeseen difficulties. Europe, take note.

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34 Intellectual Property High Court, 27 April 2010 – *K.K. Kotobuki v. Japan Post.*
35 Tokyo High Court, 14 July 2008 – *Furuta Denki v. Ryowa Seisaku.*
36 Japanese Supreme Court, 10 July 2008, German translation in GRUR Int. 2009, 623.
37 See Appendix.
38 See Appendix.

III. COMPENSATION OF DAMAGES UNDER JAPANESE LAW

The third issue concerns compensation of damages. Here, Germany has developed calculation methods based on tort (actual damages to the right owner, i.e. lost profits), on unjust enrichment (licensing analogy) and on conducting another's affairs without mandate (infringer's profits). These methods of calculation have subsequently found their way into the European Enforcement Directive 2004/48 EC, thereby establishing a European *acquis* in this field. *Klaus Grabinski* in his contribution has further elaborated on the finer points of how German courts apply these methods of calculation, and *Toshiaki Iimura* sets out the practice in Japan. Also here, for the benefit of the foreign reader, a look at historical developments in Japan might help.

1. The Definition and Assessment of Damages under Japanese Law

Damages under the Japanese Civil Code (Section 417)[39] take the form of monetary relief rather than other forms that perhaps more adequately would restore the *status quo ante*. Further, damages are strictly compensatory and in no case punitive, as the Supreme Court has clarified.[40]

Viewed as compensatory, proof of damages is a necessary part of procedure, which, however, is difficult in the absence of court orders on an inspection of documents. This finally prompted the legislature in 1998 to enact provisions that should give the judge a certain discretion in damage calculation. Where the other side does not produce evidence, or where evidence is difficult to come by for other reasons, Sections 248 CCP[41] and 105-3 PA[42] entitle the judge to a discretionary calculation of damages.[43] Court experts can also be appointed for issues of damage calculation. Here, Section 105-2 PA[44] provides a special provision whereby the court, upon the request of one party, may ask for an expert opinion "with respect to the matters necessary for the proof of the damages caused by the infringement." In such a case, "the other party shall explain to the expert the matters necessary for the expert opinion to be given." In other words, the infringing party has to cooperate with the expert for the assessment of damages, failure of which may trigger an award of estimated reasonable damages under Section 105-3 PA.[45] There

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39 See Appendix.
40 Supreme Court, 11 July 1997, IIC 30 (1999) 485 – *Punitive Damages.*
41 See Appendix.
42 See Appendix.
43 Section 248 Code of Civil Procedure was applied in Tokyo District Court, 12 October 1998, IIC 30 (1999) 457 – *Cimetidine*. The provision was used to determine the amount of the infringer's expenses to be deducted from its turnover in order to generate a figure for the infringer's profits.
44 See Appendix.
45 See Appendix. Even prior to the introduction of Section 105-2 in 1999, there have been court decisions where experts on the calculation of damages were appointed: Tokyo District Court, 9 February 1990, Hanrei Jihō 1347, 111. Here, two financial experts and one tax ad-

is no comparable provision for an expert opinion on infringement, as the Tokyo and Osaka courts are assisted by technical experts dispatched from the Patent Office. Of course, the parties are free to appoint their own experts either on matters of infringement or damage calculation. Their opinions are treated as arguments from the parties, however, and do not enjoy the specific position of a court expert under Sections 212-218 CCP.[46]

2. *Calculation of Damages*

The usual form of damage calculation as mentioned in Section 102 Patent Act[47] is the patentee's loss due to the infringement. In other words, the patentee's (hypothetical) assets but for the infringement, minus the patentee's actual assets after the infringement. While the latter is easy to calculate, the former is certainly not, in particular in the absence of any meaningful discovery as to how the defendant's infringing acts have influenced the patentee's market share, turnover, etc. In the past, the courts were unwilling to make difficult equations as to market share, etc., and outright proof of loss due to the infringing act would only be possible in a market with only two competitors: the patentee and the infringer.[48] A new decision indicates that this has changed.[49] By the amendment of the Patent Act in 1999 (Section 102(1)),[50] personal losses can be calculated on a discretionary basis, according to the number of infringing goods sold by the defendant, taking into account the right owner's market share and marketing efforts. For this method of calculation, it does not matter if the defendant did not make a profit from such sales or even distributed items for free. This would basically mean a calculation based on the infringer's amount of sales, multiplied by the right owner's usual profits

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visor were appointed to calculate damages incurred over a period of eight years and took 25 days for their expertise.

46 See *e.g.* the Tokyo District Court case, 24 March 1995, 1995 AIPPI Japan English edition 238 – *Air Filter*. Here, several expert opinions were presented to the court to determine whether the defendant's product really consisted of unipolar polymer material, a term that was contained in the patent application. The court affirmed infringement.

47 See Appendix.

48 *E.g.* Tokyo District Court, 10 March 1987, Hanrei Jihô 1265 (1988) 103 – *ICS*: No lost profits, as the orders lost by the plaintiff due to the infringement could also have been lost to one of the plaintiff's competitors. Contrast the situation in Tokyo District Court, 12 October 1998, IIC 30 (1999) 457 – *Cimetidine*: "The amount of the infringing products sold by the defendant can be said to equal the amount . . . the plaintiff would have sold but for the infringement." Criticism against this "all-or-nothing" method is voiced by S. CHAEN, *Tokkyoken shingai ni yoru songai baishô* (Damages for Patent Infringement), Jurisuto 1162 (1999) 50.

49 Tokyo High Court, 15 June 1999, Hanrei Jihô 1697 (2000) 96 – *Heatbank System*. The court calculated the losses in accordance with the plaintiff's market share of 60% even in a case where the patentee did not use the patented technology to manufacture his products that were in competition with the infringing products of the defendant.

50 Law No. 41/1999.

per item, but limited to the right owner's marketing capacity (Section 102(1) Patent Act). The damage claim is arguably limited by the right owner's marketing capacity, thereby putting small-scale inventors and universities at a disadvantage. Section 102(1) also appears applicable where the lost sales are attributable to a different (but unexploited) patent of the patentee.[51] While the right owner claims lost profits, the right owner has to deduct the expenses saved. Vice versa, the infringer can deduct from the infringer's profits the expenses incurred.[52] If the infringer's figures for pure profits seem unrealistically low, the court would simply multiply the infringer's turnover with the IP owner's normal profit, as patent law already provides on a statutory basis.[53] In one notable decision rendered on the amended Section 102(1), the Tokyo District Court squarely equated the number of items sold by the infringer with what the patentee would have sold but for the infringement. The court refused to take into account competing products on the market, efforts by the infringer to develop the market, advertising expenses by the infringer, or the price differences between the infringer's and the patentee's products:[54]

> The patent right being a right to exclude, Section 102(1) Patent Act should be interpreted as a legal fiction that the goods infringing the patent right (in the following "infringing goods") and the goods of the patentee (in the following "the patentee's goods") are supplementary. That is, the patent is a right to enforce a technical monopoly, and the sale of goods falling within the technical scope is exclusively allocated to the patentee. The argument that goods embodying the patented invention may not be substitutable on the market must therefore be disregarded. Based on this reasoning, the provision is to be understood as there being a presumption that the infringing goods and the patentee's goods are supplementary on the market. Accordingly, the damages by the sale of the infringing goods must be deemed the loss of the patentee on the market.... While there is a proviso in

51 Tokyo High Court, 15 June 1999, Hanrei Jihô 1697 (2000) 96 – *Heat Bank System*: Here the patentee held patents A and B, made its turnover by exploiting patent A, while the infringer used the technology of patent B, which then led to a drop in sales of the patentee's products using technology A. The case resembles a similar US case (*Rite-Hite Corporation v. Kelley Corporation*, 56 F3d 1538 (Fed. Cir. 1995) and is open to question: First, the result would doubtlessly be different if patents A and B were held by different owners. Second, if the Patent Act aims at patents being exploited, why should strategic non-exploitation be rewarded?

52 Osaka District Court, 17 September 1998, Hanketsu Sokuhô 282 (1998) 17 – *Toaster*.

53 *E.g.* Osaka District Court, 25 February 1993, Chizaishû 25-1, 56 – *Jimmy'z*; in Tokyo District Court, 31 October 2001, Law & Technology 15 (2002) 92, this principle is affirmed, yet the court stresses that it would apply particularly to trademarks, as no damage to the trademark owner's goodwill could be detected in such a case. The principle is also applied to other IP rights, however: Osaka District Court, 27 March 1981 for a patent. That the courts in trademark cases require use by the trademark owner rather than the (registered) licensee is incomprehensible, however: Tokyo District Court, 24 March 1993, IIC 26 (1995) 566 – *Type Chanel No. 5*.

54 Tokyo District Court, 19 March 2002, IIC 34 (2003) 965 – *Pachinko Slot Machine*. The decision became moot, however, as the patent in question was revoked only days after the decision was rendered.

> Section 102(1) that damages based on the infringing goods sold be partly or completely limited by the amount the patentee could have sold, as mentioned above, based on the understanding of the patent as an exclusive monopoly, there is a presumption about the supplementary relationship between the infringing goods with the goods of the patentee, and that the sale of the infringing goods is equivalent to the loss by the patentee, and the proviso expressed in Section 102(1) Patent Act "...would have been unable to sell" cannot be understood as to refer to the infringer's sales capacity (in particular, the advertising efforts, efforts to develop the market, sales capacity, business scale, fostering of sales by branding, low sales price of the infringing goods, quality of the infringing goods, features unrelated to the patented invention that increase the sales), or to the presence of other goods of a supplementary nature, or competing goods on the market....

But the view expressed in this decision that Section 102(1) Patent Act has codified a legal fiction that no longer requires the proof of a causal link between damages and the infringing act, has been contested. In particular, in the *Massage Chair* decision, the patentee had a rather limited capacity to produce the patented goods, and according to the court, the patentee could thus not have sold the patented products even if the defendant had not infringed:

> Thus, the infringement of the plaintiff's patent no. 5 cannot be the reason for the plaintiff to sell fewer patented products. In other words, due to the limited production and marketing capacity of the plaintiff, the proviso of Section 102(1) "...would have been unable to sell" must apply.... The patentee argues that even if the proviso of Section 102(1) Patent Act should apply in the presence of competing products on the market, for the remainder of the goods sold by the defendant (thus, 99%) [in other words, those goods that the patentee could not have produced], Section 102(3) should apply and the ordinary licensing fee be calculated as 5% of the sales price. However, Section 102(1) Patent Act compensates for patent damages calculated as if the infringing event had not occurred, while Section 102(3) Patent Act compensates the patentee to an adequate amount for the use of the invention. These are thus two completely different ways of calculating damages. In addition, a request for an ordinary licensing fee for those items the patentee could not have sold, goes beyond a request the patentee makes for compensatory damages for an act of infringement meant to make good damages that have been incurred. It is therefore difficult to see a reason why the patentee should be compensated beyond the damages he has actually incurred, and the plaintiff's request in this regard must fail.[55]

The latter decision therefore requires there to be a causal link between damages and infringing act, and furthermore does not allow the patentee to combine patentee's damages (within the ambit of the latter's production capacity) with an ordinary licensing fee for those infringing goods the patentee could not have produced.

55 IP High Court, 25 September 2006 – *Massage Chair II*.

3. Infringer's Profits

Section 102 Patent Act[56] statutorily regards the infringer's profits as one form of calculating the patentee's damages. How "profits" should be calculated is somewhat in dispute, in particular what the defendant should be permitted to deduct as expenses in this respect in order to arrive at the "pure profit" the courts would allocate. First of all, it is up to the defendant to prove that turnover does not equal profit. In other words, once the defendant's turnover has been established, this figure is presumed to be the amount of profit unless otherwise shown by the defendant.[57] Under Section 248 Code of Civil Procedure,[58] the courts would be entitled to a discretionary calculation in cases where it is "extremely difficult" to establish exact proof. One decision on patent infringement allowed for the following deductions:

> In order to calculate this amount of profit, one should start from the amount of Tagamet tablets and calculate first of all the direct expenses of marketing and producing these (costs of the basic substance, manufacture, packaging, licensing fee, shipping and selling), which have to be deducted. These direct costs over time amount to an average of 45.2% of the sales price, in other words, it would be reasonable to deduct 45% of the tablets' sales price for costs the plaintiff saved due to loss in sales. Further, the plaintiff had other expenses, such as the costs of sales promotion and advertising, wages, research and communication, expenses for entertainment, health and welfare, plus other expenses. Among these expenses are those that are in no way related to the actual sales of Tagamet tablets and the amount that is sold, and should thus not count as deductible expenses.[59]

Things become more complicated if either the infringer makes extremely low profits on its turnover, or if the infringing goods are composite articles of which the patented invention represents only a small part.

As to the first question, the courts increasingly tend to dismiss the infringer's figures for pure profits when deemed unrealistically low. In these cases, the court would multiply the infringer's turnover with the patentee's normal profit on its own devices:

> Yet, the profit made by the defendant is extremely small . . . due to the fact that the defendant used the products to promote others of his own. For this reason, the defendant's calculations on prices and profits cannot be taken into account here. Rather, the calculation of profits should be based on what the plaintiff would have made as a profit for the comparable goods he sold.[60]

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56 See Appendix.

57 Tokyo District Court, 7 October 1998, Hanrei Jihô 1657 (1999) 122 – *Recharging System*. Details by S. CHAEN, Jurisuto 1162 (1999) 50.

58 See Appendix.

59 Tokyo District Court, 12 October 1998, IIC 30 (1999) 457 – *Cimetidine*.

60 Osaka District Court, 17 September 1998, Hanketsu Sokuhō 282 (1998) 17 – *Toaster*.

Under the new Section 105-2 Patent Act,[61] the court may appoint an expert witness for the calculation of damages (see above).

As to the second problem, there is little case material to draw on. In one case of patent infringement where the defendant had only infringed a patent for a composite part of a complex machine, the court awarded damages calculated on the sale of the machine multiplied by a factor corresponding to the relevance of the patented part.[62]

While some decisions have held that the infringer's profits cannot be claimed where the IP right in question was not used,[63] a recent decision has questioned this in a case where the patentee did not use its patent, but would have obtained the profits but for the defendant's infringing behaviour (due to the sale of a different pharmaceutical in competition with the infringing one manufactured by the defendant).[64]

4. Ordinary Licensing Fee

Awarding an ordinary licensing fee is the fallback method of calculation if higher damages under other calculation methods fail. Traditionally, in patent matters the courts awarded extremely low licensing fees based on two studies of the Inventor's Association on licensing fees for certain types of inventions in domestic licensing contracts.[65] In most cases, however, those patents infringed were particularly valuable ones, and often were inventions made abroad. It would thus have been more appropriate to take fees in international licensing agreements as a reference,[66] and award top-end fees rather than across-the-board averages.

In some cases the courts took existing licensing agreements into consideration.[67] Yet the patentee might not be particularly interested in publishing the rates of other licensing agreements on the infringed technology, particularly since there is no reason why an infringer should profit from what an honest user had negotiated. Owing to the 1998 amendment of Section 102(2) Patent Act,[68] the courts no longer feel obligated to award

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61 See Appendix.

62 Tokyo District Court, 26 December 2003, Hanrei Jihō 1851, 138 – *Filling Machine*. On the other hand, in a case of copyright infringement, the court awarded the copyright owner the complete profits on the sale of a CD with about 20 different computer games, only one of which was infringing. Tokyo District Court, 31 January 1994, Chizaishū 26-1, 1 – *Pacman*.

63 Tokyo District Court, 31 October 2001, Law & Technology 15 (2002) 92.

64 Tokyo District Court, 8 October 2009, Case No. 2007 (wa) 3493. It is not clear if the court held this only for the rather specific facts of this case, or if it generally found that Section 102 Patent Act should not be limited by the patentee's own inertia.

65 HATSUMEI KYOKAI (ed.), *Jisshi ryōritsu* [Royalty Rates] (Tokyo 1980); HATSUMEI KYOKAI (ed.), *Gijutsu torihiki to royalty* [Technology Transactions and Royalties] (Tokyo 1992).

66 This was in fact done in Tokyo District Court, 30 March 1996, Hanrei Jihō 1585 (1996) 106.

67 Tokyo District Court, 18 October 1996, Hanrei Jihō 1585 (1996) 106 – *Concrete Steel Rod*.

68 Law No. 51/1998.

only an "ordinary" licensing fee, and recent case law seems to indicate that the courts have become more assertive in arriving at higher figures.[69]

In cases where the above-mentioned damages cannot be claimed, *e.g.* due to time bar, the right owner can base a claim for a licensing fee on the provisions of unjust enrichment (time bar of ten rather than three years).[70]

5. Court Costs and Attorneys' Fees

The total costs for patent infringement suits are relatively high, at each court level between 8 and 10 million yen (currently 70,000 to 90,000 euro). Attorneys' fees are freely negotiable and are either calculated per hour or according to a fee table published by the Japanese Bar Association. The latter is divided into an advance payment and a success fee. Both are calculated according to the economic gains the party makes from winning the suit. Making clear arrangements about attorneys' fees is advised.

With these introductory remarks on a number of controversial issues, the reader is invited to move on to the individual chapters compiled in this volume.

69 Tokyo District Court, 30 March 1998, Hanrei Jihō 1646 (1998) 143 awarded an unheard of 7% royalty rate in a patent infringement case.

70 Tokyo High Court, 13 July 1999, Hanrei Jihō 1696, 137 – *Karaoke*. The court found the damage claim time barred, yet ordered the defendant to pay what a lawful user would have had to pay.