

Patent Litigation in Japan from a User's Point of View

Motoaki Suzuki *

- I. Introductory Remarks
- II. Problems Arising from the “Double-Track System”
 - 1. Trends in the Years 2005 and 2006
 - 2. Trends in the Years 2007 and 2008
- III. Reasons for the High Number of Patent Invalidation Findings
 - 1. Japan's Pro-patent Policy
 - 2. Implementation by the Patent Office and Revised Damages Calculation Method
- IV. Raising the Level of Non-obviousness
- V. Conclusion

I. INTRODUCTORY REMARKS

My name is perhaps quite common, but I do not believe my opinions on patent litigation in Japan are, or that my opinions are representative of Japanese industry. I think I am also not representative as a user of the patent litigation system in our country. When I mentioned to the organizer of this symposium that my opinion is not mainstream, the answer was: That is why we invited you! With an answer like that, I had no alternative but to accept. I would, however, like to change the title of my paper to “Japanese Patent Litigation from *One* User's Viewpoint”.

II. PROBLEMS ARISING FROM THE “DOUBLE-TRACK SYSTEM”

1. *Trends in the Years 2005 and 2006*

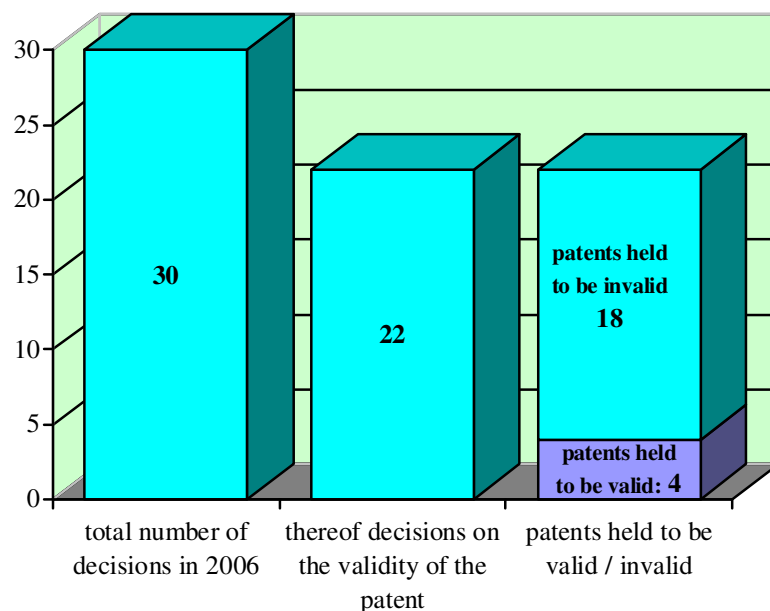
Problems in our patent litigation system arise because not only does the Japan Patent Office decide on the validity of patents, but the infringement courts may also decide on validity. Mr Mimura has explained this “double-track system” in his presentation, under which court decisions on validity have had a strong impact in practice.

This becomes obvious when studying the outcome of court decisions in patent infringement disputes of the Tokyo District Court in 2006:

* Director, Intellectual Property Division, JFE Techno-Research Corporation.

Graph 1:

*Decisions of the Tokyo District Court
in Patent and Utility Model Right Cases in 2006¹*



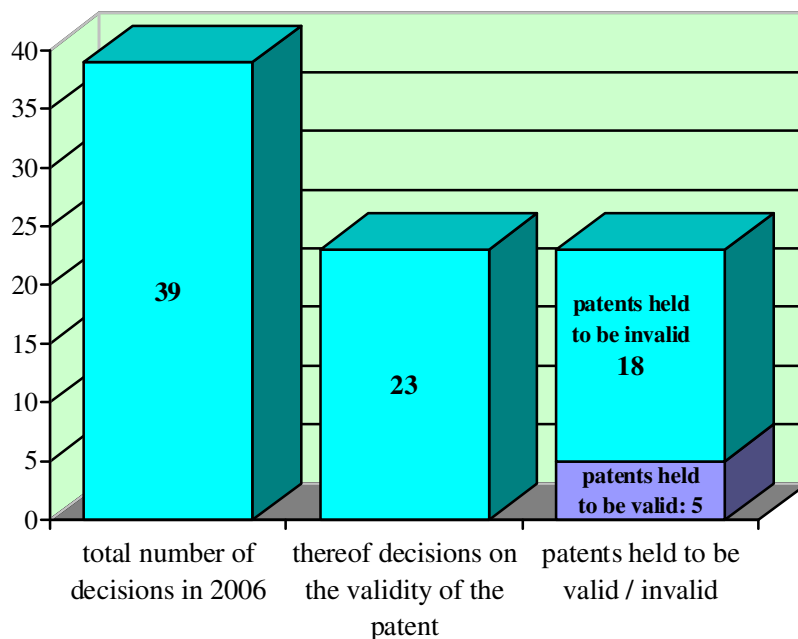
In 2006, the Tokyo District Court issued 30 decisions in patent and utility model infringement cases. In 22 of these, the court had to decide on the validity of the patent. It decided in 18 cases that the patent must be considered invalid and in 4 cases that it was valid. Thus, when validity was examined in patent infringement proceedings in 2006, in 81% of the cases the patent was declared invalid and in 18% valid. These results were not satisfactory for the patentees.

In 2005, the situation was quite similar. The Tokyo District Court issued 39 decisions in patent and utility model disputes. In 23 cases, the court had to decide on the validity of the patent: it held in 18 cases that the patent was to be considered invalid and in 5 that it was valid.

¹ Data compiled from the comprehensive publication of court decisions in IP cases on the website of the Japanese Supreme Court: *Chiteki zaisan hanreishū*, www.courts.go.jp/search/jhsp0010?action_id=first&hanreiSrchKbn=07. This also applies to the following data unless other sources are indicated.

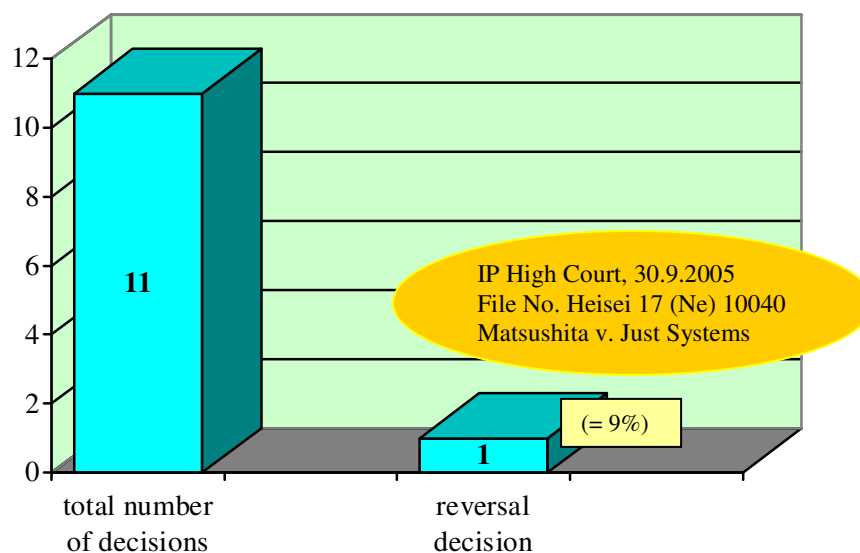
Graph 2:

*Decisions of the Tokyo District Court
in Patent and Utility Model Right Cases in 2005*



As can be seen from the following graph, most of the decisions of the Tokyo District Court were then also confirmed by the second instance, i.e. the Intellectual Property High Court in Tokyo. According to the statistics of the IP High Court, the court had to decide 11 cases in 2005/2006, of which only one was reversed in the first instance. And in this case, the IP High Court reversed because it held that the patent, contrary to the decision of the Tokyo District Court, was invalid.

Graph 3:

Decisions of the Intellectual Property High Court in 2005

In sum, after the objection of invalidity was introduced into the Patent Act in 2005 as a defence in infringement proceedings, in 80% of the cases where the objection was raised, the patent was held to be invalid by the infringement court. Therefore, a user's conclusion would have to be that the fees a patentee has to pay to obtain and maintain a patent could not be considered a valuable investment, but only income for the Japan Patent Office.

<i>Tokyo District Court</i>	<i>Patents Held Valid</i>
2006	18%
2005	22%

However, the number of patents held invalid in patent infringement proceedings decreased in the following years.

2. Trends in the Years 2007 and 2008

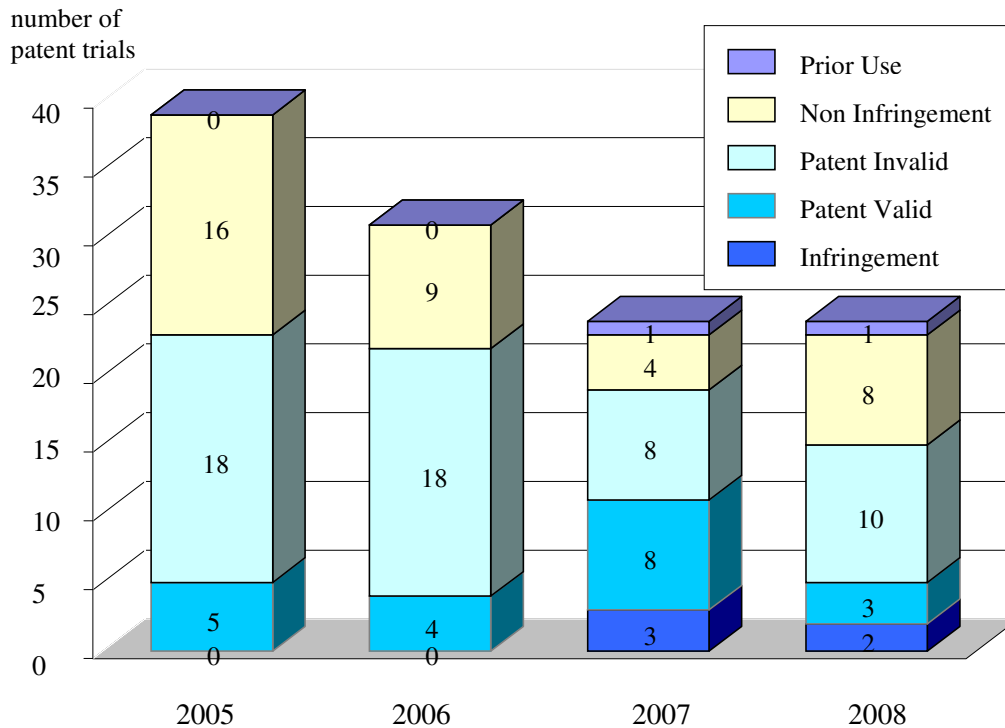
In 2007, the Tokyo District Court rendered 24 decisions in patent and utility model disputes and found in 8 cases (33%) that the patent was invalid.

In 2008, the Tokyo District Court again decided 24 patent and utility-model infringement cases and found in 10 cases (42%) that the patent was invalid. In my view, this ratio was still too high.

Possibly as a consequence, in 2007 the number of patent litigation proceedings decreased by 17% (from 31 cases in 2006 to 24 in 2007). In the years 2007/2008, plaintiffs lost in most of the cases. In 2007, the court decided 24 cases and confirmed infringement in three cases; in 2008, again 24 cases were decided but this time the court confirmed infringement in only 2 cases.

Graph 4:

Trend of Decisions of the Tokyo District Court in 2007 and 2008



In 2008, there was a remarkable development: a number of smaller Japanese companies sued large companies. For example, KDDI was sued for damages in the amount of 200 million yen (1.6 million euro), Nintendo for 50 million yen (400,000 euro) and Sony and East Japan Railway for one billion yen (8 million euro). In all of these cases, however, the plaintiffs lost.

II. REASONS FOR THE HIGH NUMBER OF PATENT INVALIDITY FINDINGS

I will now turn to the question of why there was a high number of invalidity findings in Japan's patent infringement litigation proceedings in those years.

1. *Japan's Pro-patent Policy*

In my view, the reason can be found in Japan's pro-patent policy. In the 1990s, US companies claimed an incredibly high amount of damages from Japanese companies in patent infringement litigation in the United States.

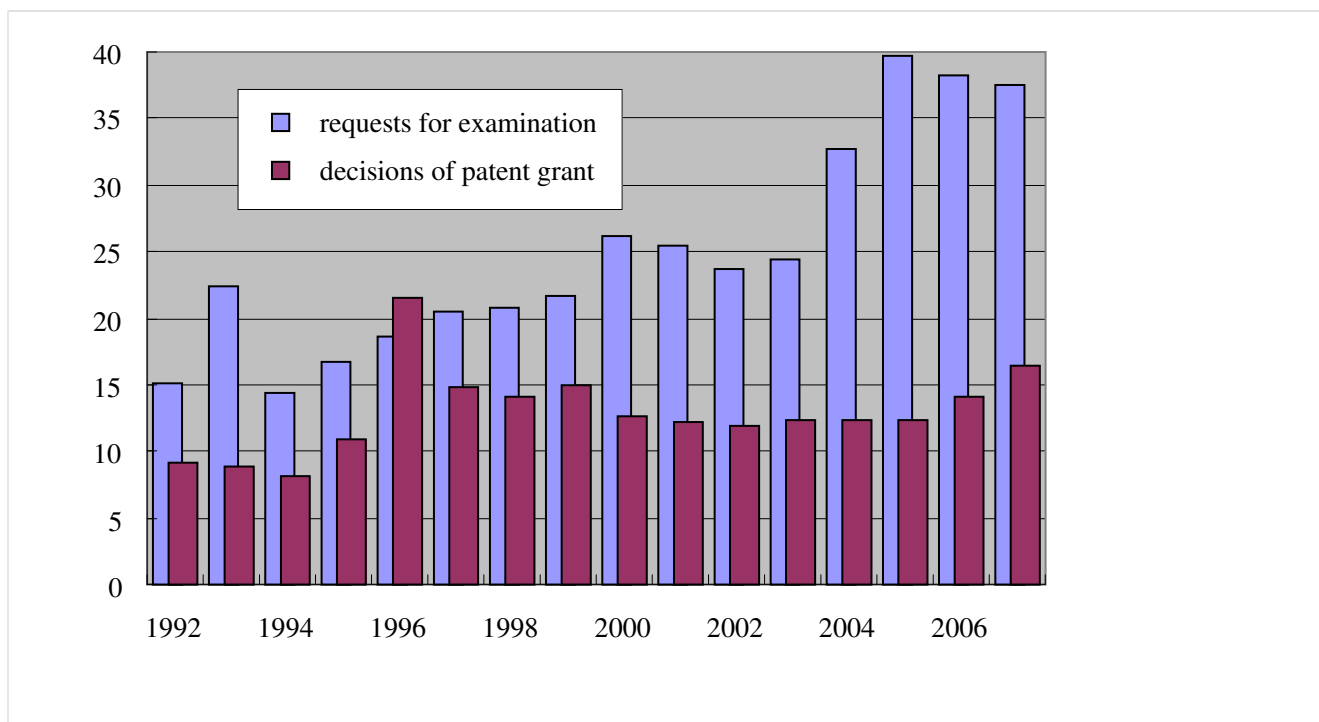
One well-known case was *Honeywell v. Minolta*. The patent at issue related to auto-focus technology. In the end, Minolta had to pay over 96 million USD in damages to Honeywell. Another well-known case was *Coyle v. Sega Enterprises* involving a game machine. Coyle was a non-corporate inventor. Sega Enterprises had to pay the sum of 33 million USD in damages. These amounts of damages appeared to Japanese practitioners to be extraordinarily high. The reaction was to initiate Japan's own "pro-patent policy".

2. *Implementation by the Patent Office and Revised Damages Calculation Method*

In 1995, the Japan Patent Office commenced its implementation of the pro-patent policy. One particular aim was that Japan should become "a nation built on intellectual property" (*chizai rikkoku*). The JPO therefore granted a large number of patents in 1996. To do so, it had to lower the standard of non-obviousness. The sudden increase of registered patents in 1996 is shown in the following graph:

Graph 5:

Numbers of Requests for Examination and Decision of Patent Grant (x 10,000)²



The Japanese Patent Act was also revised several times as part of Japan's pro-patent policy. In 1999, Section 102 on the calculation of damages was amended.³ Before the amendment, the amount of damages granted was often equal to the amount of license fees. The new Section 102 enabled patentees to claim much higher amounts. In a case in which I was involved on the defendant's side, the plaintiff claimed 2.8 billion JPY (app. 24 million EUR) in damages. The defendant's sales turnover amounted to 5.2 billion JPY. The plaintiff thus claimed over half of the defendant's sales turnover earned with the product at issue. However, the Tokyo District Court Tokyo dismissed the action since the plaintiff had not shown enough evidence of an infringing act.⁴

2 JAPAN PATENT OFFICE (ed.), *Tokkyo gyōsei nenji hōkoku-sho 1996* (Patent Administration Annual Report 1996).

3 See Appendix.

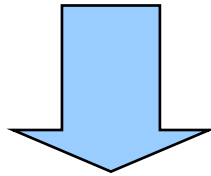
4 Tokyo District Court, 27 July 2001, Case 1999/No. 21974 – *PZB Case*.

III. RAISING THE LEVEL OF NON-OBVIOUSNESS

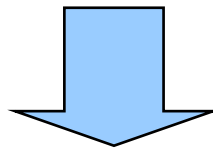
In the course of the pro-patent era, the significance of patents steadily increased and the value of carefully selected and strong patents was emphasized. Patent rights were thus supposed to be of good quality, in fact. However, the opposite was sometimes true. In 1999, I received a warning letter from a Japanese steel maker. I went to see the president of our company and said: “The asserted patent is very weak. We should defend ourselves in court proceedings.” The president responded: “Are there weak and strong patents?” We won in the end since the patent was declared invalid. The infringement court decisions finally helped to raise the level of “non-obviousness” of patented inventions.

These court decisions then also influenced the examination practice of the Japan Patent Office. At the beginning of the pro-patent era, the examination practice at the JPO was not very strict; however, in my view the requirements for “non-obviousness” have now reached a reasonable level.

Strict requirements on “non-obviousness”
of Tokyo District Court and of IP High Court



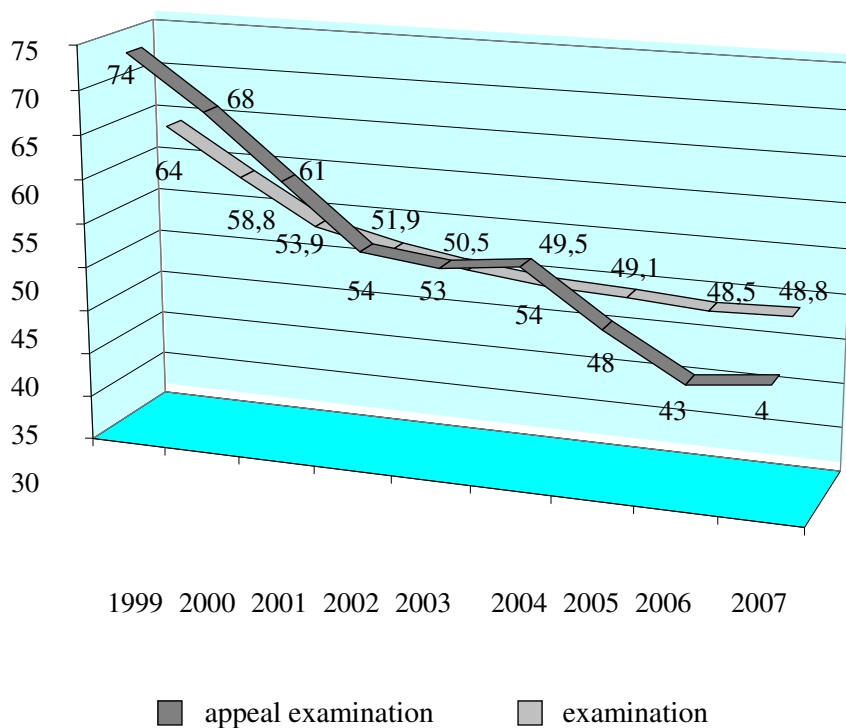
Japan Patent Office carries out
careful examination,
raises the level of “non-obviousness”



Era of carefully selected strong patents

The decrease in the success rate of the appeal proceedings against the examiner’s decision of refusal as shown in the following graph is also of relevance:

Graph 6:

*Appeal Examination Success Rate 1999-2007*⁵

In 1999, there was a considerably high success rate of 71% in patent examination appeal proceedings. As can be seen from the chart below, the success rate has fallen continuously since then. In 2007, the success rate in patent examination appeal proceedings reached a reasonable level of 44%. The rate of granted patents has fallen, too (see *Table*⁶ on page 110)).

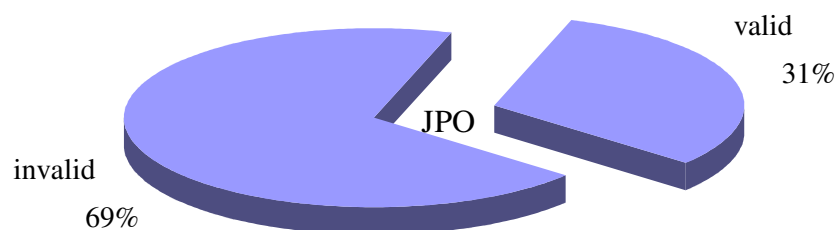
⁵ JAPAN PATENT OFFICE (ed.), *Tokyo gyōsei nenji hōkoku-sho 2007* (Patent Administration Annual Report 2007).

⁶ *Ibid.*

<i>Technical Field</i>	<i>Appeal Examination Success Rate in 2006</i>
Physics	39%
Mechanics	44%
Chemistry	51%
Electronics	39%
<i>Average</i>	<i>43%</i>

Graph 8

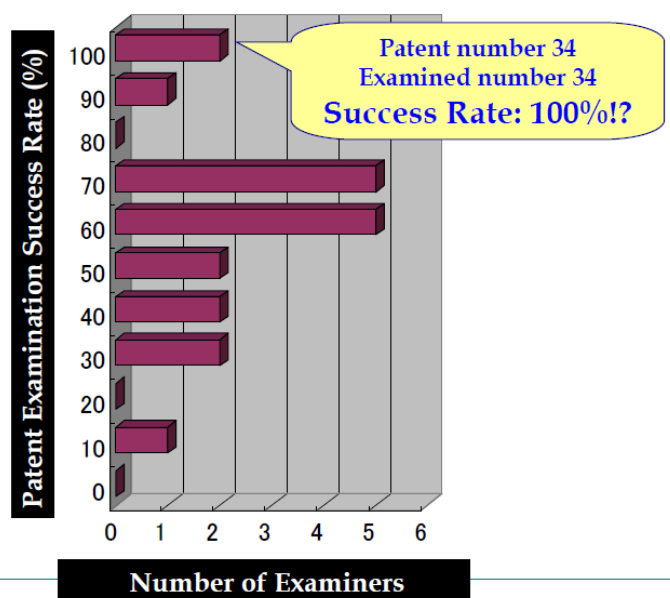
*Appeal Proceedings against Appeal Examination Decisions
4/2005 – 7/2006*



Under the governmental “Plan for the Promotion of Intellectual Property” of 2006, the hope was to prevent the decisions of the civil courts regarding patent validity from deviating from the decisions of the JPO. However, a very high number of granted patents still lacked validity. For instance, the following graph shows the results of a survey in one specific technical field in which 635 patent applications were studied from 2004 until 2006.

Graph 7:

Patent Application Examination Results 2004-2006 in a Specific Field ⁷



I will take two examiners from the survey as an example. Between 2004 and 2006 they examined in their specific technical field 34 patent applications and also granted 34 patents. That means they had a grant rate of 100%. It seems doubtful that all of the inventions of the 34 patent applications were patentable. It seems therefore fairly evident that the examination practice of the JPO must be further monitored.

IV. CONCLUSION

The Japanese courts have been criticized in the media for rendering decisions in patent litigation cases that are too strict. It is also said that such decisions constitute an unjustified treatment of the patentees and that they contradict Japan's IP policy.

However, in my view, the courts should continue to strictly examine the validity of the patents to be enforced. Only outstanding technology should be patented in the pro-

⁷ The Second Intellectual Property Management Committee, in: *Chizai Kanri* (Intellectual Property Management) Vol. 58 (2008) No. 11, 1478 *et seq.*

patent era. Furthermore, the courts should spend sufficient time on an infringement case to reach a well-founded decision. The users prefer quality over speed.⁸

8 *Editor's note:* Recent decisions of the Intellectual Property High Court indicate that the seeming trend to hold patents either non-infringed or invalid has been turned around; cf. Chizai Kōsai, judgment of 23 June 2001, *Heisei* 22 (ne) No. 10089 – *Foodstuff Wrapping* case; Chizai Kōsai, interlocutory judgment of 7 September 2011, *Heisei* 23 (ne) No. 10002 – *Mochi* case. According to a Japanese comment of September 2011, “Japan has recently been shifting to a pro-patent forum.”