

Is Japan a hostile environment for patents?

Despite low attorney fees, high damages and relatively fast trials, the number of patent cases being initiated in Japan is falling. Some commentators argue that Japanese patent litigation is actually anti-patent, which may be affecting the number of cases filed

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Although IP lawsuits have been on the rise in recent years, the last three years have seen a drop in the number of cases filed (see Figure 1). The peak was recorded in 2003, when over 650 cases were filed. However, by 2007 there had been a fall of over 20%, with fewer than 500 cases filed. Although detailed numbers are not available, it is believed that about half of IP lawsuits involve patent litigation.

This trend in IP litigation is quite the opposite of the trend in general civil lawsuits, where the number of suits filed has been rising steeply over the last three years (see Figure 2). One fact common to all lawsuits is that the duration of trials has been shortening significantly year by year.

With regard to patent litigation, the average trial period in the district courts has fallen to less than 15 months as a result of diligent attempts by the courts. This period is apparently shorter than comparable periods in US and European courts.

Cost performance

Figure 3 compares cost performance for patent litigation in five major countries and regions. The “cost performance” can be defined as the amount of damages recovered

by unit cost, with consideration given to the duration and stability of the trial.

As shown in Figure 3, Japan is an ideal market in which to litigate patents. The market is relatively big, which means that large amounts of damages may be recovered. The cost, the main portion of which is attorney fees, is not particularly high and trials are fast and relatively stable. Other regions, by contrast, have difficulty in at least one of these areas. For example, people litigating in the United States suffer from extremely high attorney fees. In addition, past cases reveal that many Japanese companies have experienced difficulty dealing with a jury system. In Europe, the problem is the scale of the market, as patent holders are obliged to enforce their patents country by country. In Korea there is the same market size problem as in European countries. While there is a large market in China, the trial procedure is less stable, although this is improving. In conclusion, there is no obvious reason for the fall in the number of patent litigation cases in Japan.

Anti-patent trends

However, many people argue that Japanese patent litigation is actually anti-patent. An analysis of all patent litigation cases heard this year (from January to October 2009) reveals the following:

- Thirty-seven patent litigation cases were heard during this period.
- Twenty-six of these were patent infringement cases.
- Only four of these cases (15%) resulted in a finding of patent infringement.
- The remaining 22 cases were dismissed.
- The patent was found to be invalid in 12 out of 22 cases (46%).
- In the remaining 10 cases, the court stated that the disputed product was not literally infringing the patent (39% of total cases).

Figure 1. Number of IP lawsuits filed in Japan

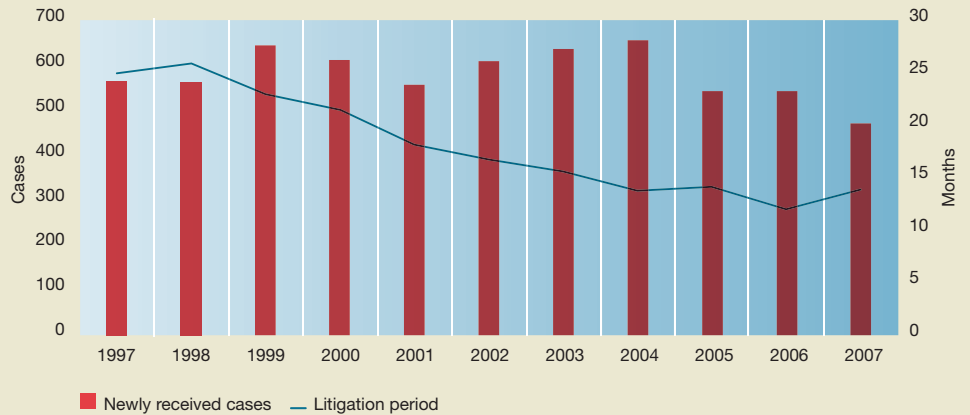
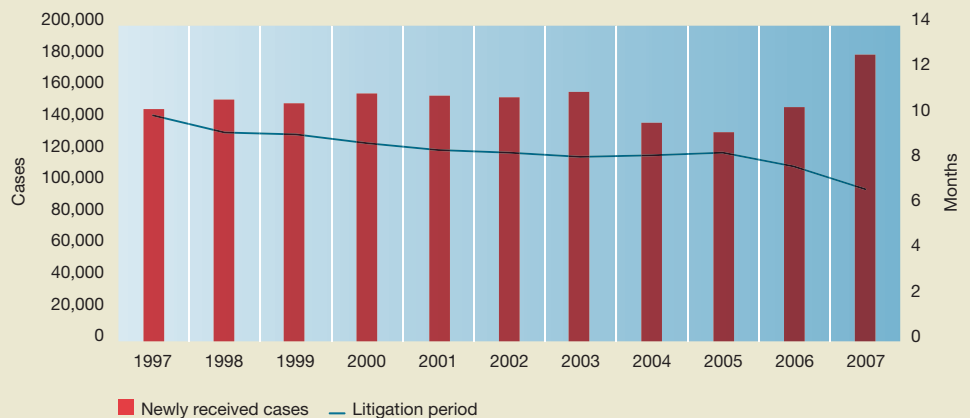


Figure 2. Number of general civil lawsuits in Japan



Settlement

These figures demonstrate a clear anti-patent tendency. However, it should be remembered that over 80% of patent litigation cases result in a court settlement. It is a particular feature of the Japanese litigation procedure that there is no way of obtaining information about these settled cases, so the above statistics deal only with the 20% of total cases that are disclosed by judgment.

Accordingly, it appears that parties tend to settle when the plaintiff is in a superior position. This is because plaintiffs prefer to fix the amount of damages they can recover before effective prior art is submitted. Judge Iimura, one of the most famous IP litigation judges, once commented in a seminar that: “Time is only favourable for defendants. Plaintiffs gain nothing by taking time in patent litigation.”

In the author’s estimate, more than 40% of settlements have ended up in the plaintiff’s favour. Therefore, while the published number would suggest an anti-patent trend, the reality is not so extreme.

Invalidity decisions

The recent trend of IP High Court appeals against validity decisions handed down by the Japan Patent Office (JPO) is shown in Figure 4 (the IP High Court is similar to the US Court of Appeals for the Federal Circuit, in that all suits that it hears have reached the appeal stage). There is a distinct tendency for the IP High Court to cancel trial decisions of the JPO; the overall percentage of cancellation is 30%. This means that if a patent holder has its patent’s validity confirmed by the JPO, the IP High Court will cancel this decision one in three times. If one examines the original JPO decisions, over 50% of these state that a valid patent was cancelled by the IP High Court, while only 10% state that an invalid patent was cancelled (for a detailed breakdown of these figures see “Decision of Inventive Step in Patent Infringement Litigation” by Takaaki Iimura, judge of the IP High Court, vol 84 (May 2009) Niben Frontier; Figure 4 was also referred from this article). Again, this demonstrates how difficult it can be to maintain a patent in Japan.

Figure 3. Comparison of cost performance in patent litigation

	Japan	United States	Europe	China	Korea
Amount of compensation for damages	HIGH A large market with large amounts of damages recoverable.	VERY HIGH A very large market with large amounts of damages recoverable.	NOT HIGH The market for each country is relatively small.	?? The amount of damages for foreign companies is not high.	NOT HIGH The market is not as large as in the United States or Japan.
Attorney fees	NOT HIGH About ¥20 million.	VERY HIGH ¥100 million or more.	HIGH ¥50 million.	NOT HIGH About ¥20 million.	NOT HIGH About ¥20 million.
Speed	SPEEDY Between 12 and 18 months.	SLOW Between two and three years.	SLOW Between two and three years.	SPEEDY Six months.	NOT SPEEDY Between 18 and 24 months.
Stability of trial	FINE	PROBLEMATIC Jury trial system.	FINE	??	FINE

■ Good ■ Not good

A basic guide to Japanese patent litigation and its procedures

Jurisdiction

There are only two district courts where patent litigation can be initiated: the Tokyo District Court and the Osaka District Court. Generally, jurisdiction is determined by the location of the defendant’s main office. However, if the defendant manufactures or sells the disputed product through a branch site in another location, this may be considered sufficient minimum contact to determine jurisdiction. The tendency of each jurisdiction court is substantially the same and forum shopping is not an issue in Japan.

Appeal courts

All appeals against patent lawsuits in district courts, as well as appeals against JPO invalidation trials, are heard in the IP High Court in Tokyo. This is so that a single, unified decision can be issued where the JPO and the district court have reached different verdicts with regard to a patent’s validity. The Supreme Court seldom receives appeals from the IP High Court, unless it feels that the case would have a significant impact on Japanese patent practice.

Judges

All cases are determined by judges; there is no jury system in Japan. Judges typically have no technological background or experience as patent attorneys or other patent practitioners. Japanese patent litigation is treated not as a special type of litigation, but as merely one type of civil lawsuit where injunctions and damages are claimed. To make up for judges’ lack of

technological background, a researcher – usually a former patent examiner at the JPO – is appointed to be in charge of each case. Accordingly, there is generally good technological comprehension of the patent subject matter in Japanese patent lawsuits.

Procedure

A patentee can claim an injunction and damages in patent litigation. The typical period of patent litigation before a district court is between 12 and 16 months. The first eight to 12 months is usually spent determining the scope of the patent and whether any infringement has taken place; the remainder of the period is used to determine the amount of damages.

A patentee can also request a preliminary injunction for prompt relief against apparent infringement. However, it can take at least six months to obtain an affirmative decision from the court. After a preliminary injunction decision has been made, the patentee is obliged to lodge a deposit for bond.

Scope of the patent

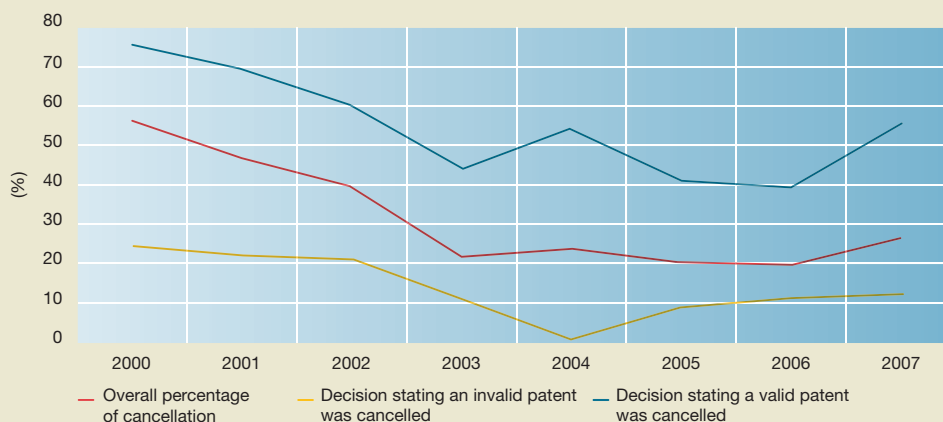
The patent’s scope shall be defined by the claim language (Article 70(1) of the Patent Law). However, the claim language may be interpreted by referring to the specification and the drawings (Article 70(2)). It is always a matter of dispute as to whether the claim language should be interpreted solely on its literal meaning or whether account can be taken of the accompanying specification. There are many cases dealing with this point: although Japan is not a country of case law, an IP High Court decision can substantially influence patent practice.



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Figure 4. The tendency of appeal against JPO trial decision



Data source: Patent Office Survey

The doctrine of equivalence applies in Japanese patent litigation. In 1998 the Supreme Court established the following five requirements for the doctrine of equivalence:

- The difference between the subject claim and the disputed product must not be a substantial portion of the claim.
- The two products must have the same effect, despite this difference.
- The difference must be obvious at the date of infringement.
- The accused product must not be in the public domain.
- There must be no file wrapper estoppels to prohibit admitting infringement.

However, fewer than 10 cases have admitted infringement by taking advantage of the doctrine of equivalence in the last decade.

Invalidity claim

In 2000 the Supreme Court held that a court can decide the validity of a patent independently of the JPO in a patent litigation procedure; this statute was reflected in Japanese patent law in 2005. It is now the practice in Japan that when a court finds a patent invalid, it dismisses the plaintiff's claim because the patent is unenforceable (Article 104(3)).

Procedure for submitting evidence

There is no discovery system in Japan. Only evidence obtained by both parties is submitted voluntarily to the court. Most evidence is in written form (eg, patent gazettes, experimental reports, brochures and scientific papers). Testimony and expert opinion do not bear much weight in Japan.

The only way to force an opponent to submit evidence in its possession is to

obtain a document submission order from the court (Article 105). These are limited in their operation in order to prevent plaintiffs from filing lawsuits simply to acquire a competitor's confidential information. Protective order systems were added by an amendment to the Patent Law in 2005 (Article 105(4)).

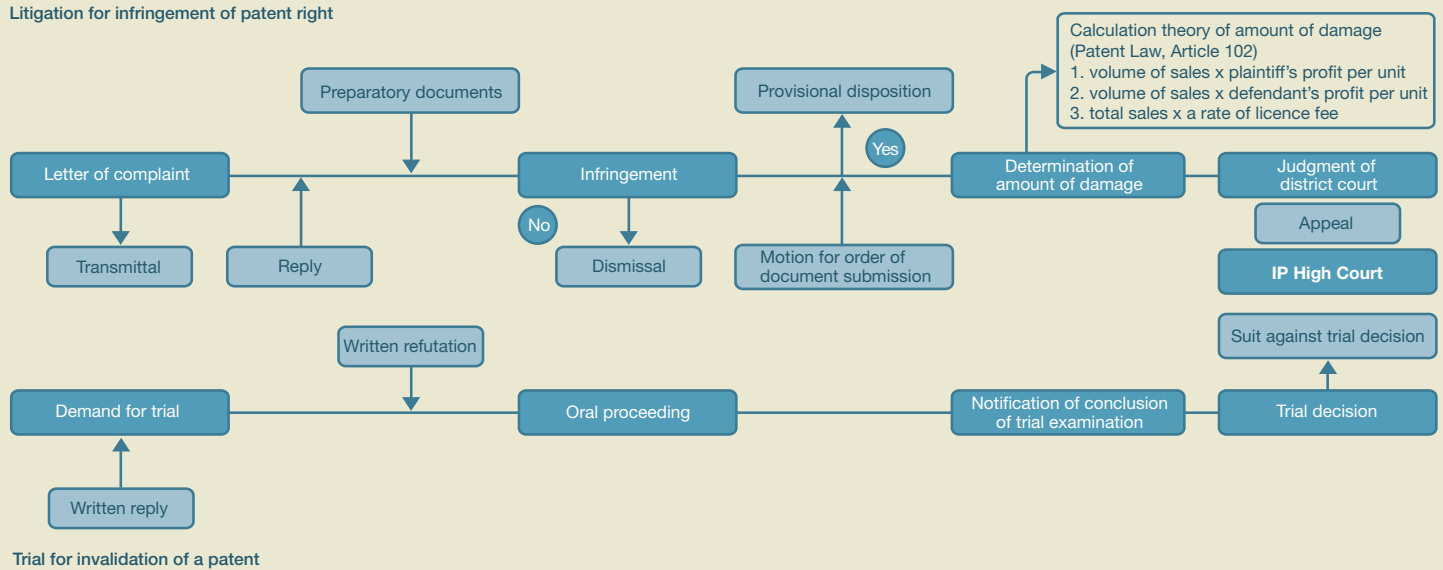
General explanation of procedure

Figure 5 provides a detailed explanation of the court procedure. When a complaint is filed with the court, the defendant must submit a written reply by the first court hearing date to show whether it accepts the complaint. Several court hearing dates are provided (represented by the black circles) before the court determines the existence of infringement; both parties submit written briefs (shown by the vertical arrows) according to the procedure. If the court determines that no infringement has taken place or that the patent is invalid, it immediately dismisses the case. If the court determines that infringement has taken place, it continues to the second procedure to calculate the amount of damages. The standard for calculating damages is explained later in detail.

After damages have been calculated, the court issues its decision. Typically, a judge discloses his conclusion informally before going on to discuss the possibility of both parties reaching a settlement. Appeals to the IP High Court may be filed within 14 days of receipt of the decision. All decisions relating to IP cases are disclosed to the public on the Supreme Court's website within a few days of the judgment.

As mentioned earlier, defendants can submit an invalidity argument to the court

Figure 5. Procedures of patent litigation and invalidation trial



— often, this argument is made in parallel with an invalidation trial before the JPO. Typically, an invalidation trial takes over 12 months, which may be slower than the court procedure. Trial decisions issued by the JPO may be appealed to the Tokyo IP High Court within 30 days of receipt.

Damages

According to Article 102 of the Patent Law, there are three methods of calculating damages, as shown in Figure 5.

The first method is to multiply the volume of sales by the plaintiff's profit per unit, which is a good way of calculating the maximum amount of damages. However, in order to apply this method the plaintiff must submit accounting data, which includes confidential financial matters. The amount of damages typically calculated using this method is between 20% and 40% of net sales.

The second method is to multiply the volume of sales by the defendant's profit per unit. Plaintiffs often request the court to order the defendant to submit its cost and profit data. This theory is fair and convenient, because plaintiffs do not have to suffer the risk of disclosing accounting data, while still acquiring a fairly high amount of damages.

The third method is to multiply total sales by the rate of a licence fee. This is the only method that can be relied on by non-Japanese patent holders and typically results in a royalty rate recovery of between 3% and 10% of sales.

Attorney fees

Since Japanese litigation does not comprise time-consuming procedures such as discovery, attorney fees in Japanese patent litigation are relatively inexpensive compared to those in US and European patent litigation. Recently, many patent attorneys have charged by time spent on a case, typically between US\$300 and US\$500 per hour. The total spent on attorney fees in a Japanese patent litigation will typically rise to somewhere between US\$100,000 and US\$300,000 for a district court procedure. If an invalidation trial is filed simultaneously with the JPO, there may potentially be four procedures: an infringement lawsuit at the district court, an invalidation trial at the JPO and appeals for each at IP High Court. This can result in total costs of between US\$300,000 and US\$1 million, which is still inexpensive compared to US procedures. ■

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