

# The Enforcement of the Intellectual Property Rights in Japan

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Title:

# “The Enforcement of the Intellectual Property Rights in Japan”

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## [CONTENTS]

- I. Introduction
  1. What is “Enforcement”?
  2. Enforcement and IPRs
    - 1) World Expositions and the Paris Convention
    - 2) The WTO-TRIPS Agreement
    - 3) The EC Guideline
  3. Enforcement of IPRs in Japan
    - 1) Statutory law
    - 2) History
    - 3) Provisions
  4. Public Policy
  
- II. The System and Examples of Enforcement
  1. Introduction
  2. Different Types of Enforcement and their Characteristics
    - 1) Concept of enforcement
    - 2) Civil enforcement
    - 3) Criminal enforcement
    - 4) Administrative enforcement
    - 5) Enforcement by a third-party body
  3. Case Examples of Enforcement in Japan
    - 1) Current situation of settlement of IP right disputes
    - 2) Enforcement against technological imitation
    - 3) Enforcement against imitation of distinctive features and designs
  4. Summary

### III. Changing Environments

1. Limited enforcement under the standard-essential patents
  - 1) General view on global trend
  - 2) Case Study
2. Limitation of the enforcement against the PAE
3. Enforcement against counterfeits on the Internet
  - 1) Identifying the infringer
  - 2) Issues involving private international law
  - 3) The risk of being sued abroad
  - 4) Case Study

## I. INTRODUCTION

### 1. What is enforcement ?

This article is to articulate the scope and effects of enforcement of intellectual property rights in Japan. The term “enforcement” is a word which has been used mainly in criminal law as well as civil law in Japan. In the field of intellectual property law, however, it is relatively new and not necessarily familiar. A reason for the unfamiliarity is, simply stated, a difficulty of arrangements for IP protection.<sup>1</sup>

The concept of the enforcement is therefore not clear when it is used in the context of intellectual property. Before going into the substance of this article, we should define it so as to enable readers of this article to better understand what is discussed in the following sections.

When the term “enforcement” is used in connection with an intellectual property right (IPR), it is generally recognized as the exercise of IPRs to exclude others from using them. Some people may consider the enforcement of IPRs in relation to the remedial aspects of infringement. Some may consider it more broadly to include even transactions of IPRs, including licensing and technology transfer.

According to the *Merriam-Webster* dictionary, enforcement is explained to mean the act of putting in force or causing effect.<sup>2</sup> This meaning is too general and insufficient to understand the concept of enforcement of IPRs. A legal dictionary defines it more technically as the “act or process of compelling compliance with a law, mandate, command, decree, or agreement.” It includes in its meaning the detection and punishment of violation of the law.<sup>3</sup>

Turning to the term “right,” the legal dictionary defines it as the interest, claim, or ownership that one has in tangible or intangible property. Therefore, when the term “enforcement” is used in the context of IPRs, it can be understood as the right to exclude others from using it without permission and to assure the remedy of infringements of IPRs.

However, the lexicological definition does not tell anything about the type of

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<sup>1</sup> Robert P. Merges describes in this context: “In the case of tangible property, informal arrangements with those physically proximate to valuable assets can in some cases do an adequate job of protecting those assets from theft. But in IP, it is very difficult to make effective arrangements along these lines. The enforcement technology of a central government apparatus has always been essential to any functioning system of IP protection.” (“Justifying Intellectual Property” Harvard University Press, 2011, pp. 93-94)

<sup>2</sup> The Webster’s Third New International Dictionary, unabridged, G&C Merriam Co., 1976

<sup>3</sup> The Black’s Law Dictionary, Deluxe, 8<sup>th</sup> Edition

remedies against the infringement of IPRs. It is the role of the court to fill the gap. The court has so far included administrative fines, criminal fines, prison terms, or civil remedies as remedies of infringement. Fines are in the form of injunction, compensation or destruction of infringing goods. Among other things, the most common measure is the injunction to put an end to acts of the infringement of IPRs.<sup>4</sup>

In this article, the following discussions are substantially concerned with industrial property rights. Detailed discussion on copyright is not intended in this article.

## **2. Enforcement and IPRs**

### **1) World Expositions and the Paris Convention**

The Paris Convention for the Protection of Industrial Property is known as the founder of the modern intellectual property system. It was adapted in Paris in 1883. Since its adaption, the Paris Convention has been revised several times, and now it includes many articles relating to the protection of IPRs. Among other provisions, Article 10<sup>bis</sup> is primarily concerned with ensuring protection against unfair competition.<sup>5</sup> The provision is applicable to the infringement of industrial property rights including patents, trademarks and designs. Provisions on the protection of IPRs are listed in Table 1 below. However, the Paris Convention was not the outcome of the desire for equity and fairness. There was an emergent need to make an international commitment for the protection of IPRs beyond the barrier of national boundaries and territorialities.

In the London Exhibition of 1851, which was the first World Exposition held at the Crystal Palace, London, one of the most eye-catching displays was the “Paterson Colt 45,” the revolver from the U.S. A. At the exhibition site, Samuel Colt, the inventor of the revolver who had relevant patents in the US and the UK, disassembled ten guns and reassembled them using different parts from different guns. His demonstration of

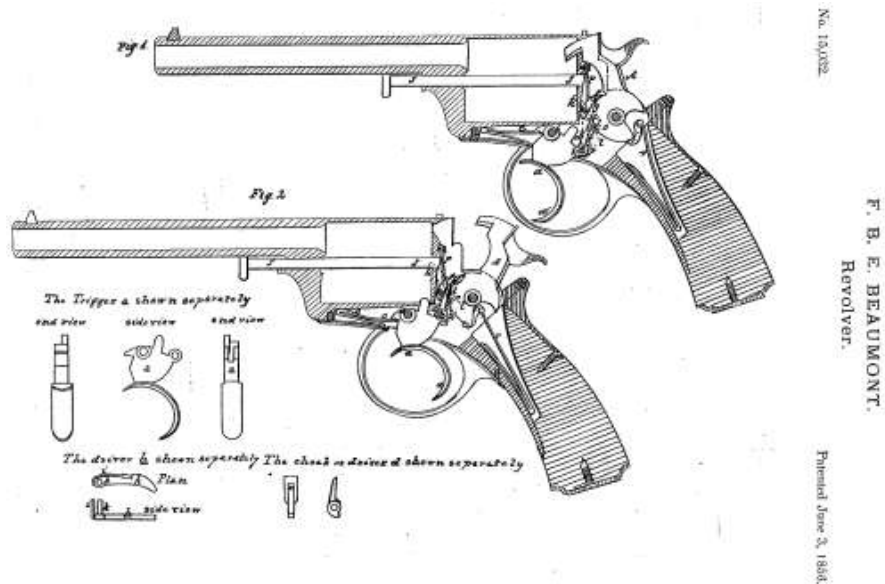
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<sup>4</sup> See, for example, Christopher Heath “The Enforcement of Intellectual Property Rights” Japan Patent Office, Asia-Pacific Industrial Property Center, JIII, 2002, p3

<sup>5</sup> Article 10bis (Unfair Competition) sets: (1) The countries of the Union are bound to assure to nationals of such countries effective protection against unfair competition. (2) Any act of competition contrary to honest practices in industrial or commercial matters constitutes an act of unfair competition. (3) The following in particular shall be prohibited: (i) all acts of such a nature as to create confusion by any means whatever with the establishment, the goods, or the industrial or commercial activities, of a competitor; (ii) false allegations in the course of trade of such a nature as to discredit the establishment, the goods, or the industrial or commercial activities, of a competitor; and (iii) indications or allegations the use of which in the course of trade is liable to mislead the public as to the nature, the manufacturing process, the characteristics, the suitability for their purpose, or the quantity, of the goods. For more details, see, for example, Patricia V. Norton “The Effect of Article 10bis of the Paris Convention on American Unfair Competition Law,” Fordham Law Review, Volume 68, Issue 1, Article 7, 1999, p239.

disassembling and reassembling at the site attracted the attention of the audience. It gave the audience a strong insight for future mass production of standardized products. Photo. 1 is the copy of US (design) patent for Paterson Colt 45.

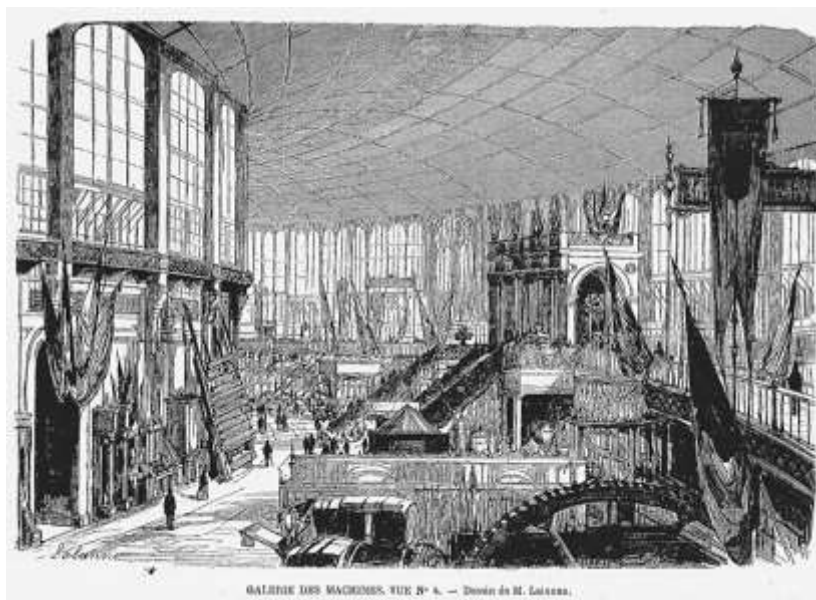
Fig. 1-1. US Patent on the Colt 45 Revolver



In 1967, the second World Exposition was held in Paris with the strong patronage of Napoleon III. France made efforts to make the exhibition bigger and more successful than the first exposition in Crystal Palace in London. There were a large number of exhibits relating to newly invented machineries and equipment. More than 15 million people visited the exhibition which had a full display of industrial machineries and equipment. It was extremely successful.

Photo 1-1. The machinery gallery of the Paris Exhibition 1867

(Source: National Diet Library Japan, Copyright © 2010 - 2011)



In 1873, the third World Exposition was held in Vienna, Austria. Despite efforts of Austria, the number of exhibitors did not increase as industrial countries were not enthusiastic about participating in the exhibition initially, although Japan sent the first formal delegation to the exposition.

The lack of enthusiasm was caused by the concern of the risk of patent invalidation under Austrian patent law. At that time, if a patent was not executed for a year, the right was expropriated compulsorily. As a result, there was a concern that the latest technologies might be imitated if they had been exhibited at the exposition. Another concern for the hesitation was that the exhibition was a good opportunity for the counterfeit of new technologies, trademarks and trade names. Austria therefore felt the need to establish patent rules and passed a special law to leave out the concerns of weak IPR protection. Australia held an international conference on industrial property. After a series of discussions, the Paris Convention for the Protection of Industrial Property was concluded in 1883.<sup>6</sup>

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<sup>6</sup> See, the column of the National Diet Library, Japan “Expositions where the modern technology of the times was exhibited,” <http://www.ndl.go.jp/exposition/e/s1/1873-1.html>

As shown in Table 1, there are many articles on the protection of trademarks and trade name. Patent protection was, however, not sufficient and is sought under the article titled “Unfair Competition” only.

Table 1-1. Provisions for IPR Protection in the Paris Convention

Prohibited Act	Articles	Relevant IPRs
False indication	Articles 9, 10, 11	Trademarks and trade names
Unfair competition	Article 10bis	Patent
Copying at the international exhibition	Article 11	Industrial property rights (patent, trademark & design)

## 2) The WTO-TRIPS Agreement

As noted above, provisions in the Paris Convention were limited and not enough to assure the interest of the holder of the industrial property right. For this reason, the World Trade Organization, which in particular included the TRIPS Agreement<sup>7</sup>, was agreed upon to become effective in 1995. The TRIPS Agreement is a comprehensive multilateral agreement on intellectual property to combat piracy and counterfeiting. It deals with each of the types of intellectual property rights and establishes the standard of protection as well as rules on administration and enforcement of intellectual property rights. It also sets forth the application of the WTO mechanism of dispute resolutions between member countries concerning compliance with the standard. Part III of the TRIPS Agreement deals with domestic procedures of remedies for the enforcement of intellectual property rights.

The Agreement lays down general principles applicable to enforcement procedures of IPRs. In addition, it contains provisions on civil and administrative procedures and remedies, provisional measures, specific requirements related to boarder measures and criminal procedures. These provisions specify in a certain amount of detail, the procedures and remedies that must be available so that the holders of IPRs can effectively enforce their rights. They also provide safeguards against the abuse of such procedures and remedies.<sup>8</sup>

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<sup>7</sup> The Agreement on Trade-Related Aspects of Intellectual Property Rights

<sup>8</sup> See, for example, WTO “A Handbook on the WTO TRIPS Agreement,” edited by Antony Taubman, Hannu Wager and Jayashree Watal, Cambridge University Press, 2013, p.10, p12,



Table 1-2 Enforcement Provisions in the TRIPS Agreement (Part III)

Section	Article	Content
1: General obligations	41	Authorization of the member states to legislate domestic enforcement procedures
2: Civil and administrative procedures and remedies	42-49	Fair and equitable procedures/Production of evidence/Injunction/Damages/Administrative procedures, etc.
3: Provisional measures	50	Authorization of the court to order protective measures
4: Special requirements related to border measures	51-60	Suspension of release by customs authorities/Security assurance/Indemnification/Right of inspection/Remedies/De minimis import, etc.
5: Criminal procedures	61	Criminal procedures

### 3) The EC Guideline

With the view to further improving the system of judicial enforcement in the EU, the Commission has recently released a guideline in 2017 to update the 2004 IPR Enforcement Directive (IPRED).<sup>9</sup> It is supposed to work with Member States' national experts and judges to give more detailed and practical guidance on specific IPRED issues, based on best practices experience. It will call on Member States to encourage the specialization of judges for IP and IP enforcement-related matters, and to systematically publish judgments rendered in IP enforcement cases. Together with the EPO, it will take further action to facilitate the wider use of alternative dispute resolution (ADR) to settle IP disputes, including mapping existing ADR tools and analyzing the merits of establishing a mediation center at the EPO.

The 2017 Guideline was released in November 2017 together with the SEP

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<sup>9</sup> European Commission "COMMUNICATION FROM THE COMMISSION TO THE EUROPEAN PARLIAMENT, THE COUNCIL AND THE EUROPEAN ECONOMIC AND SOCIAL COMMITTEE - A balanced IP enforcement system responding to today's societal challenges," Brussels, 29.11.2017 COM (2017) 707 final.

Guideline. It shows that the enforcement of IPRs in the EU has to be coordinated with the SEP licensing.

### **3. IPR Enforcement in Japan**

#### **1) Statutory law**

The international convention of intellectual property rights allows each member country to legislate its own domestic law to the extent it conforms to the framework of the international convention. Under domestic law, the owner of valid IPRs is entitled to seek a remedy when its IPRs are infringed. Thus, the foundation of the enforcement of IPRs is built in statutory law.

More specifically, the Japan Patent Act entitles the patent owner to claim an injunction (Article 100). When the injunction is admissible, the court orders to prohibit the trade of infringing goods and to abandon or destroy infringing goods, including equipment and devices used for their production. Technically, an injunction can be divided into the following three types:

- 1) injunction to compel the ongoing infringing act (injunction in narrow terms),
- 2) injunction to prevent future infringement (injunction for prevention) and
- 3) destruction of infringing goods, removal of devices and equipment used for manufacturing the infringing goods and other measures to be effective for stoppage and prevention of the infringement (injunction for removal).

The statutory basis for the injunction of IPRs is summarized in Table 3.

#### **2) History**

The term “injunction” appeared in Japan’s intellectual property law for the first time in 1959. The Patent Act, the Utility Model Act, the Design Act and the Trademark Act have their own specific provisions for injunction, as shown in Table 3,

Before Japan introduced the injunction provision into industrial property law in 1959, the statutory basis of the injunction was considered the tort law of the Civil Code (*Minpo*). Under the Patent Act of 1921 - the first modernized patent act in Japan - for example, the infringement of a patent right was treated as an unlawful act subject to punishment under criminal law.<sup>10</sup>

#### **3) Provisions**

The provision of Article 100, Patent Act of 1959, sets forth as follows:

- 1) A patentee or its exclusive licensee may demand a person who infringes or

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<sup>10</sup> Ichiro Kiyose “*Tokkyo Ho Genri*” (The Principle of Patent Law), Gangshodo Shoten, 1921, p472

is likely to infringe the patent right or its exclusive license to stop or prevent such infringement.

- 2) In making a demand under the preceding paragraph, the patentee or exclusive licensee may demand measures necessary for the prevention of such infringement including the disposal of products constituting such act of infringement and the removal of facilities used for the act of infringement.<sup>11</sup>

A likewise injunction is available for each of the other industrial property rights such as utility model, design and trademark. The injunction is available whenever an infringed patent is found valid by the court. The Copyright Act also entitles the author, the copyright owner, the publisher or the owner of neighboring right to claim an injunction of the copyright against the infringer (Article 112). An injunction is available for the owner of a trade secret when its business interest is violated or likely to be violated by the act of unfair competition.

Table 1-3: Statutory provisions for injunction

Name of the Act	Article	Measures to be taken lawfully
The Patent Act	100	Stoppage, Prevention and/or Disposal of the infringing goods/ Removal of devices and equipment used for producing the infringing goods/Other measures to prevent infringement
The Utility Model Act	27	
The Design Act	37	
The Trademark Act	36	
The Copyright Act	112	
The Unfair Competition	3	

#### 4. Public policy

The effect and scope of the enforcement of IPRs has been discussed within the framework of the industrial property right in legal terms. In recent years, however, the enforcement of IPRs has been analyzed and appraised in non-legal terms. A good example is the empirical report published by the Economic Research Institute for ASEAN and East Asia (ERIA). The ERIA report recognizes that the enforcement of IPRs plays an important role in driving foreign direct investments (FDI) into developing nations.

To be more specific, the ERIA Project Report FY2013 No. 16 states, "Reforming the

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<sup>11</sup> These two provisions are substantially the same as those in the Utility Model Act, Article 26, the Design Act, Article 37 and the Trademark Act, Article 36.

Intellectual Property System to Promote Foreign Direct Investment in ASEAN” analyzes major aspects of IPR-related factors: 1) “trademark”, “trade secret” and “patent,” 2) cost of obtaining IPRs and examination timeline, 3) availability of remedies (injunction and damages) in trademark and patent, 4) harmonization of IP examination system, 5) import/export control of counterfeit goods and 6) lack of well-structured IPR-related information system.<sup>12</sup> Based on its analysis, the ERIA report recommends the following policy implications:

- To improve the level of legal development of IPRs and the level of implementation and enforcement of IP laws
- To establish a well-structured and user-friendly information system and service for searching IPRs and referring IP-related procedures
- To construct a more harmonized IP system in ASEAN
- To leverage the IP system to foster innovation in the ASEAN region

It is clear from the report that the enforcement of IPRs in the 21<sup>st</sup> century is not only an important component to support the intellectual property system, but also an important driver for developing nations to attract foreign direct investment from developed nations.

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<sup>12</sup> The ERIA is an international organization established by a formal agreement among 16 heads of government at the 3rd East Asia Summit in Singapore on 21 November 2007. ERIA works closely with the ASEAN Secretariat, researchers and research institutes from East Asia to provide intellectual and analytical research and policy recommendations. The ERIA also works for capacity building aimed at strengthening policy research capacities in less developed countries. A copy of the full report is available from the ERIA website at: [http://www.eria.org/publications/research\\_project\\_reports/FY2013/No.16.html](http://www.eria.org/publications/research_project_reports/FY2013/No.16.html)

Photo 1-2. The ERIA IPRS Report, FY2013, No. 16



To sum up, arguments on the enforcement of IPRs has so far been made in order to assure the interest of the holder of IPRs. In other words, the enforcement of IPRs was an important vehicle to sustain the position of technological head-starters. However, studies show that it is a system to help the late-starters to develop their technologies and industries.

In the following chapters, discussion is made on the status of the enforcement of IPRs in Japan and new environments surrounding it.

(This chapter is authored by Jinzo Fujino<sup>13</sup>)

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<sup>13</sup> Adjunct professor at Tokyo University Science, School of Innovation Studies. With a master of law from Waseda University, he wrote three books on the interplay between patents and technology standards.

## **II. The System and Examples of Enforcement**

### **1. Introduction**

As mentioned in Chapter I, TRIPS was the first agreement to internationally introduce the concept of enforcement into the realm of international property (IP) rights. Part III of the TRIPS Agreement, which relates to enforcement, was compiled based on suggestions made by the EC which has accumulated insights through its traditional crackdown on counterfeits.

During the more than twenty years since provisions relating to enforcement were included in the TRIPS Agreement, problems involving counterfeits have become increasingly diverse and complicated and the damage caused by counterfeits appears to be endless. Chapter II first outlines the different types of enforcement and their characteristics, and then discusses various case examples of enforcement observed in Japan.

### **2. Different Types of Enforcement and Their Characteristics**

#### **1) Concept of enforcement**

The concept of enforcement is broad, as seen in Chapter I. Specific rights, such as the right to seek an injunction and the right to claim for damages, represent only part of the elements that comprise enforcement. Enforcement means various remedies to prevent infringement of intellectual property rights, typically by imitation, and the entire proceedings therefor. Today, when a uniform IP right protection system has almost been established, there is a critical need for international harmonization of the enforcement proceedings against infringement. Matters awaiting to be addressed range widely, because trials for enforcement can include civil, criminal and administrative ones and because remedies are diverse, including injunction and indemnification, through imprisonment, fines and administrative penalties, to disposal of infringing articles and apologies.<sup>14</sup>

The sections below describe various means of enforcement and their

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<sup>14</sup> The Enforcement of Intellectual Property Rights. Japan Patent Office Asia-Pacific Industrial Property Center, JIII. P1-3.

characteristics.

## **2) Civil enforcement**

### **i) Right to seek injunction**

The right to seek an injunction, which allows people to claim for suspension or prevention of infringement, is the most powerful and effective means of all IP right enforcement options. This right is granted with respect to not only IP rights, such as patent, utility model, design and trademark rights, but also trade secrets, breeder's rights, etc. (refer to Article 100 of the Patent Act, etc. and Chapter I). It should be noted that the holder of a utility model right may not exercise the right to seek an injunction based on his/her utility model right against an infringer unless the right holder has given warning in the Report of Utility Model Technical Opinion regarding the registered utility model prepared by the Patent Office (Article 29-2 of the Utility Model Act). This is because, unlike patent rights, utility model rights are granted without going through substantive examination and thus may not be viable as a right in practice. In order for a right holder to exercise his/her right, he/she must objectively show the viability of the right by presenting the Report of Utility Model Technical Opinion.

For example, when exercising the right to seek an injunction in a patent-infringement lawsuit, a right holder should state in the statement of claim to the effect that the defendant shall not produce, use or assign any of the products on the appendix list. The right holder may also state in the statement of claim to the effect that the defendant shall destroy its products and remove the equipment used to produce them. Such a demand for destruction or removal, which is called an accessory claim, has the effect of eradicating any factors of infringement and stabilizing the status of the right holder.

### **ii) Right to claim for damage**

A claim for damage under the Intellectual Property Act represents enforcement against an infringer in tort. The concept of a tort is defined in the Civil Act (Article 709 of the Civil Act). A tort is constituted when the following four conditions are met: (a) a person has committed an act intentionally or negligently, (b) the act has infringed the right held by another person, (c) damages have

been incurred by such other person and (d) there is a causal connection between the infringement and the damages. In this case, the right holder may claim for compensation for the damages.

Similarly to the injunction, this right is granted with respect to not only IP rights such as patent, utility model, design and trademark rights, but also trade secrets, breeder's rights, etc. Since it is often not easy to prove that the four conditions are fulfilled in a lawsuit to claim for damage based on a patent right, there are provisions that allow a right holder to presume negligence, the amount of damage, the producing process, and so on (Articles 102 to 104 of the Patent Act).

When a patent right has been infringed, the right holder can presume that the quantity of the infringing articles sold (A) equals the sales quantity lost by the right holder (B), within the extent of the capability of the right holder to work. Assuming that the amount of profit per unit quantity of the patented product is (C), the following equation is derived: amount of damage  $Y = (A) \times (C)$  (Article 102 (1) of the Patent Act). If an accurate amount of damage must be determined, it is necessary to deduct the amounts associated with certain factors that should be removed from the amount of damage, such as the sales efforts made by the infringer, the existence of alternative articles and so on. However, it is not easy to substantiate such factors in reality. For this reason, claims for damage have often unavoidably been made without deducting the amounts associated with such factors, reducing the chance of being accepted due to the lack of sufficient grounds. To address this problem, the rules for assessing the amount of damage have statutorily been prescribed.

The assessment rules are not always applied. Where it is obvious that there are specific circumstances that justify deduction, and if the infringer can demonstrate that  $(A) \neq (B)$ , then the amount of damage may be assessed by using the equation  $Y = (A) \times (C) - d$  (where d is the amount of deduction) (the proviso of Article 102 (1) of the Patent Act).

When exercising the right to claim for damage in a patent-infringement lawsuit, the right holder should state in the statement of claim to the effect that the defendant shall pay the plaintiff the amount of xx0,000 yen, and the money at a rate of 0.05 of such amount from mm/dd/yyyy until the completion of payment.

### **iii) Obligation to Return Unjust Enrichment**



If a person who has benefited by working an IP right without due right, the holder of the IP right will usually suffer a loss. In such a case, the right holder may demand the return of the profit gained by the person (Article 703 of the Civil Act, etc.).

The right to claim for unjust enrichment does not extinguish for ten years after its occurrence (Article 167 (1) of the Civil Right). This fact makes it distinct from the right to claim for damage in tort, which is extinguished by the operation of prescription upon the lapse of three years from when the victim came to know of the damages and the identity of the perpetrator (Article 724 of the Civil Act). This means that the return of unjust enrichment may be demanded even when the right to claim for damage has been extinguished by the operation of prescription.

However, when claiming for the return of unjust enrichment, it is difficult to substantiate the amount of actual damages incurred, similarly to when claiming for damage. Regardless of the circumstances, the method of assessing the amount of loss caused by unjust enrichment is not prescribed in the Patent Act or other laws, and the amount equal to the license fee is usually claimed as the amount of loss. For this reason, the amount whose return is claimed by this enforcement may be lower than the amount of loss incurred.

#### **iv) Measures to restore credibility**

If the business credibility of a patentee or other right holder is harmed in tort, the right holder may claim for restoration of reputation. For example, if an infringer is gaining profit by selling without authorization a product whose quality is lower than a patented product under the guise of the patent product, the patentee may demand the infringer to run an apology ad in newspapers. This kind of claim may be made in lieu of or in addition to a claim for damage (Article 106 of the Patent Act, etc.).

### **3) Criminal enforcement**

Infringers of IP rights are subject to criminal punishments (Article 196 of the Patent Act). In the case of infringement of a patent right, the infringer may be punished by imprisonment with work for a period not exceeding ten years or a fine not exceeding 10,000,000 yen, or a combination thereof. Since infringements of patent, trademark and other rights are often committed in

organization-wide acts, the Patent Act and other laws provide provisions for punishing not only the infringer but also the judicial person to which the infringer belongs, thereby strengthening the crime prevention measures. If such a systematic infringement of a patent right occurs, the infringer may be punished by penalties similar to the above, in addition to the offender, and the judicial person may be punished by a fine not exceeding 300 million yen (Article 201, etc. of the Patent Act).

#### **4) Administrative enforcement**

##### **i) Crackdown on articles infringing IP rights under the Customs Act**

Being incorporeal property, IP rights cannot be substantially occupied. This nature of IP rights makes them susceptible to infringement and makes it difficult to detect such infringement. Articles infringing IP rights can often be a risk to human health and safety; leaving the flow of infringing articles unaddressed could not only cause financial damage to right holders but also threaten the health and safety of consumers.

Customs offices crack down on the export and import of infringing articles at the waterfront to prevent such harm from occurring. To implement such action, a right holder files a petition for an injunction against the import/export of infringing articles as described below, and the import/export is controlled through a set of administrative proceedings.

##### **a) Petition for injunction**

When articles that are regarded as infringing an IP right are being imported (or exported), the right holder may file a petition requesting the Director-General of Customs to suspend such import (or export) and begin the procedure for determining facts (Article 69-13 of the Customs Act, etc.). The actual petition is made by filing a written petition, together with a document certifying the content of the relevant IP right, a material which makes a prima facie showing of the facts constituting the grounds for the alleged infringement.

If, after the filing of the petition, articles that are suspected to infringe the IP right are found through an investigation, the procedure for determining facts is initiated and a notice thereof is provided to both the right holder and the importer. If the articles are determined to be infringing, they are confiscated and disposed of by Customs (Article 69-2 (2), etc. of the Customs Act).

## **b) Penalties**

Articles infringing a patent right may not be exported or imported, and any person who has imported/exported or attempted to import/export such articles may be punished by imprisonment with labor for a period not exceeding ten years or a fine not exceeding 10,000,000 yen, or a combination thereof (Article 108-4 (2), etc. of the Customs Act). If an employee has imported/exported or attempted to import/export any article infringing an IP right in the course of his/her duties or other activities for the employer judicial person, the judicial person may be punished by a fine not exceeding 10,000,000 yen (Article 117 (1) of the Customs Act).

## **5) Enforcement by third-party body**

Mediation and arbitration are available as out-of-court settlement procedures by the Japan Intellectual Property Arbitration Center (JIPAC).

### **i) Mediation**

Mediation is a system under which a neutral mediator cooperates to reach an amicable settlement between the parties to a dispute. During the mediation procedure, the parties endeavor to settle the dispute by narrowing their differences while taking into consideration the opinions of the mediator, who is an expert of intellectual property. The parties have an option as to whether they accept the proposed settlement. If the parties fail to finalize the settlement, they proceed to arbitration or a lawsuit.

### **ii) Arbitration**

Arbitration is a dispute-settlement system under which the procedure is conducted, subject to the prior agreement of the parties that they will comply with the award made by impartial third-party arbitrators (arbitration agreement).

Once an arbitration agreement is established and an application for arbitration of a dispute is filed with the JIPAC, the settlement of the dispute is submitted to a panel of three arbitrators, consisting of lawyers and patent attorneys.

The arbitration procedure ends when an arbitral award is given by the arbitrators. Except under special circumstances, neither party may protest against the arbitral award or submit the dispute to a court. An arbitral award has

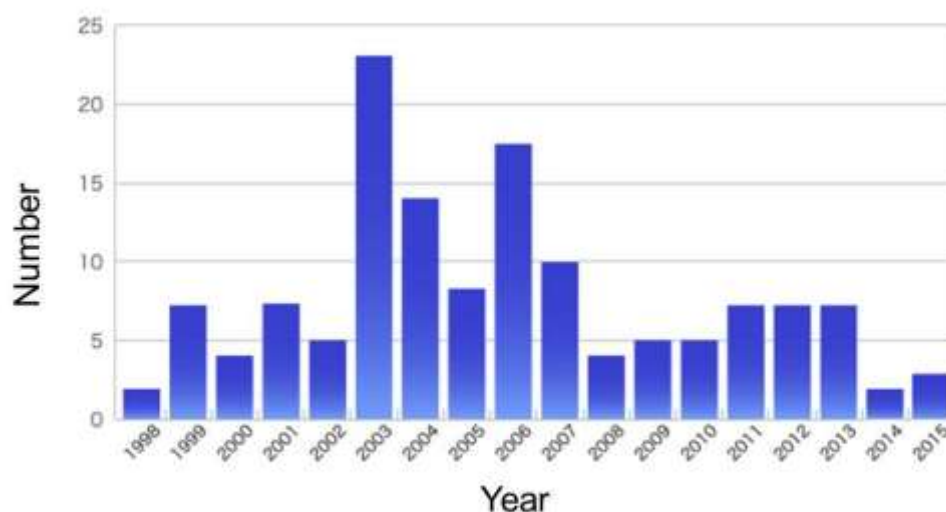
the same effect as the final decision, and can be executed forcibly based on the arbitral award by obtaining an execution order from a court.

### 3. Case Examples of Enforcement in Japan

#### 1) Current situation of settlement of IP right disputes

As discussed in the section “Types of Enforcement and Their Characteristics” above, there are enforcement options that do not involve courts, such as mediation and arbitration systems. However, these types of systems have not been utilized actively. For example, the number of cases for which mediation or arbitration was filed through the JIPAC in 2003 was 20, and this represents the largest number in one year since 2000. Since 2008, there have only been a few such cases per year (Fig. 2-1).

Fig. 2-1 Number of arbitrations or arbitration requests



Source: Japan Intellectual Property Arbitration Center (JIPAC) website

Meanwhile, the Japanese Government set the enhancement of the dispute settlement system as a goal of the Intellectual Property Strategic Programs 2015 and 2016. This was because it believed that the IP system serves as the foundation for innovation and that fast and proper settlement of disputes relating to intellectual property was critical for improving the reliability in the IP system

and ultimately in supporting economic growth.<sup>15</sup> In order for the Japanese Government to enhance the dispute settlement system, three elements were considered to be fundamental for enhancement: (i) users of the system, (ii) economic rationality and (iii) internationality. Based on this recognition, discussions were held on various subjects, including the collection of evidence, the amount of damage, the stability of rights, and the appropriate system of the right to seek an injunction.<sup>16</sup>

To date, there have been fewer patent-infringement lawsuits in Japan than in the United States, Europe and other major countries, and the ratio in which right holders win lawsuits (calculated based on final judgments) is estimated to be lower than in the United States and Germany.<sup>17</sup> For many years until recently, these tendencies were attributed to the characteristics of the Japanese people. For example, the Japanese believe that harmony is the greatest of virtues, and tend to avoid disputes between private persons.<sup>18</sup> However, these perceptions have changed in recent years, and some point out that the Japanese people actually have a strong desire to seek fair settlements based on black-and-white decisions.<sup>19</sup>

Considering this current situation, the role played by enforcement in the settlement of IP right disputes, in particular that by courts, is expected to become increasingly important in the future. This chapter collects and describes various enforcement case examples against imitation of technologies and distinctive features that have been experienced in Japan.

## **2) Enforcement against technological imitation**

### **i) Enforcement in the electronics field**

Damages due to technological imitation are notable in the fields of machinery

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<sup>15</sup> The Intellectual Property Strategic Programs 2015 and 2016 (Prime Minister of Japan and His Cabinet)

<sup>16</sup> See, Footnote 15, supra

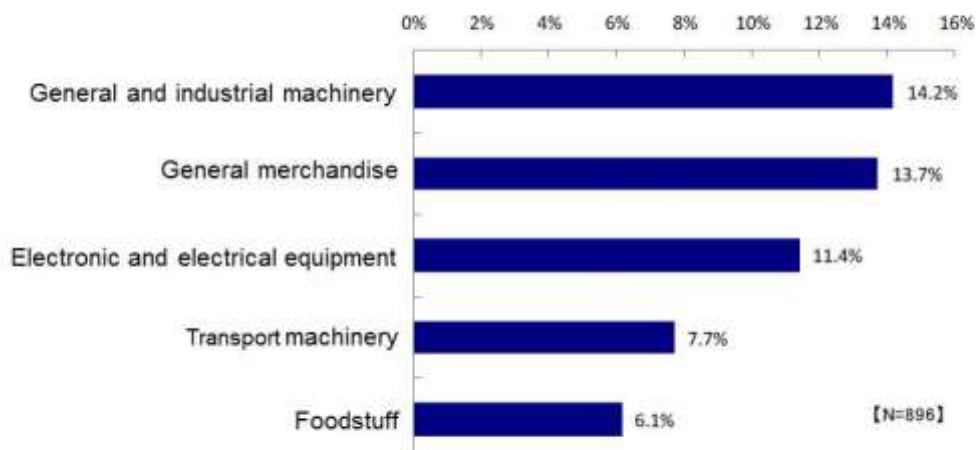
<sup>17</sup> See, Footnote 15, supra

<sup>18</sup> Christopher Heath “The Enforcement of the patent rights in major countries” (Research Institute of Economy, Trade and Industry) P202-204, 2003

<sup>19</sup> Ikuo Hara “Experience and values in lawsuit” Jurist, No. 1297, P66, 2005

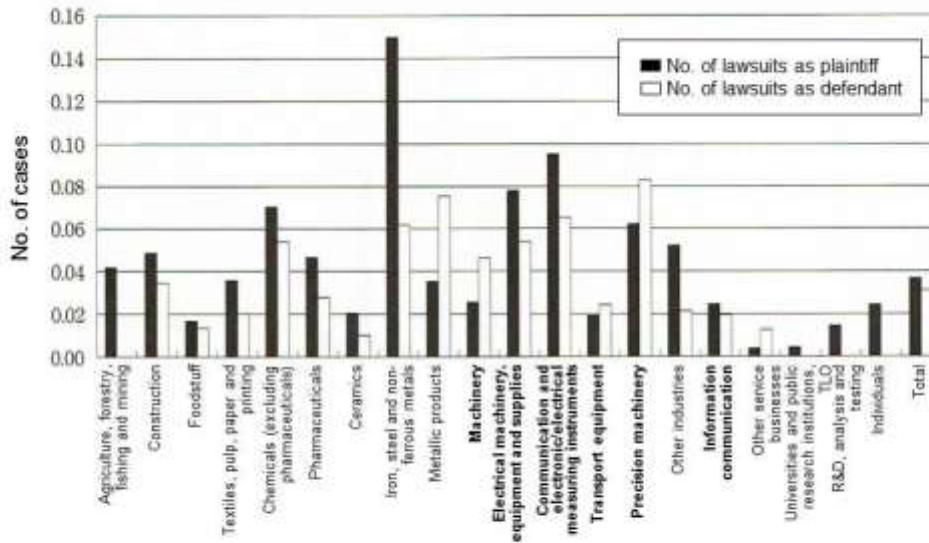
and electronics (Fig. 2-2), but the number of lawsuits in these fields is reportedly not significant (Fig. 2-3). In particular, in the field of electronics, where the “patent thicket” problem has been significant, companies are likely to actively cross-license with each other to avoid loss of time and money (Fig. 2-4). This section first introduces typical case examples of enforcement in the electronics field in which the parties ended up entering into cross-licensing agreements after lawsuits were instituted.

Fig. 2-2 Composition ratios by the field of primary goods of counterfeit victims (multiple answers included)



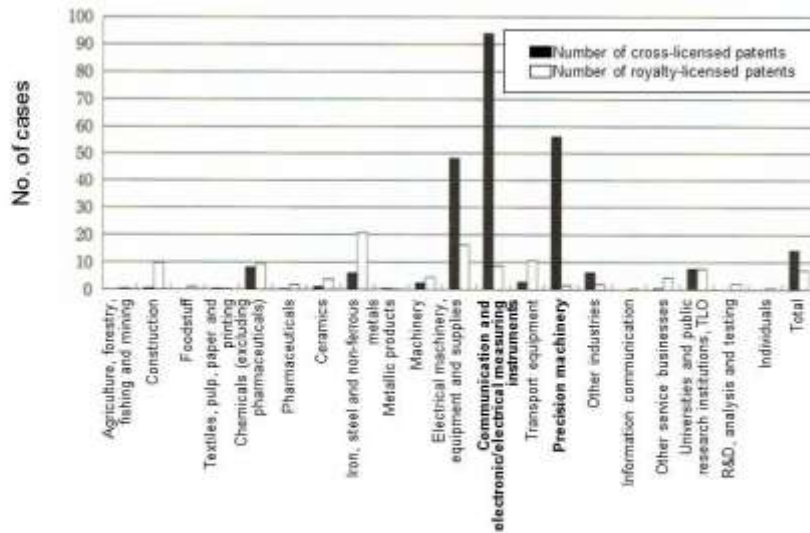
Source: FY2015 Survey Report on Counterfeit Damage (Japan Patent Office)

Fig. 2-3 Number of patent-infringement lawsuits per company



Source: Yosuke Okada and Koichiro Onishi  
 "Patent-infringement Lawsuits, IP Costs and 'Patent Thicket'  
 --- Is 'Patent Thicket' a Serious Problem?" --- p. 185  
 ("Management Economic Analysis for Patents" (compiled by Institute of Intellectual Property) 2007)

Fig. 2-4 Number of licensed patents per company



Source: Yosuke Okada and Koichiro Onishi  
 "Patent-infringement Lawsuits, IP Costs and 'Patent Thicket'  
 --- Is 'Patent Thicket' a Serious Problem?" --- p. 186  
 ("Management Economic Analysis for Patents" (compiled by Institute of Intellectual Property) 2007)

## **Case 1. Sharp vs. Samsung**

Around 2005, Samsung (Korea) began gaining market share over competitors in global sales of digital televisions. Around the same time, the share of Sharp's high-quality liquid crystal televisions, which were popular and known as "Sharp of Liquid Crystal" and "World-class *Kameyama* Brand," began to decline significantly. Beginning in 2007, Sharp began instituting many lawsuits against Samsung in the United States, Japan, Korea, Germany and the Netherlands, in attempt to recover lost ground. The offense and defense in the lawsuits fought in Japan are described below.

### **a) Pre-emptive actions taken by Sharp**

Sharp, the plaintiff, alleged that the liquid crystal television and the liquid crystal monitor worked by Samsung Japan, the defendant, fell under the technical scope of the plaintiff's patented invention, and claimed for an injunction of the production, import, and sale thereof, and also for the disposal thereof to ensure the prevention of infringement. The defendant (Samsung Japan) countered that the patent of the plaintiff should be invalidated and that the exercise of the patent right should be restricted in accordance with the provision of Article 104-3 of the Patent Act.

The Tokyo District Court approved the allegation of the plaintiff that liquid crystal televisions fall under the technical scope of the patented invention. It ruled that the defendant is banned from various acts, including the assignment and import of the products and the offering thereof, and ordered the products in the accessory claim to be disposed of. The court did not approve the plaintiff's claim for an injunction of the production of liquid crystal televisions sold by the defendant, on the ground that the products had been imported by the defendant from the Korean corporation Samsung Electronics and could not be considered to have been produced by the defendant.

### **b) Counteractions by Samsung Electronics**

The plaintiff Samsung Electronics retorted by alleging that the liquid crystal television worked by the defendant Sharp fell under the technical scope of the plaintiff's patented invention, and claimed for an injunction of the production



thereof and made an accessory claim for the disposal of the products. The defendant (Sharp) countered that the patent of the plaintiff should be invalidated on the grounds of violation of inventive step, and that the exercise of the patent right should be restricted in accordance with the provision of Article 104-3 of the Patent Act.

The Tokyo District Court dismissed the allegation of the defendant and approved the claim for an injunction and the accessory claim of the plaintiff.

Later in 2010, the parties dropped all the lawsuits, including the cases in Japan, and settled by entering into a cross-licensing agreement with each other. While Sharp refrained from disclosing the details of the agreement, it commented that the settlement was made on terms favorable to it.

Liquid crystal technology was once considered to be an integral technology. Some manufacturers resorted to “blackboxing” to retain an advantage in technological capabilities, including human resources, and restricted access to production facilities to prevent the leakage of technology.

In fact, however, the manufacture of liquid crystal televisions was a module technology, which made it easier for competitors to imitate and catch up. Late-starting manufacturers could catch up with earlier products without relying on outstanding human resources and could create off-patent products of sufficient quality in a relatively short period of time. There is always the risk that a newcomer will acquire a new patent technology in the course of research and development and become a new technology dominator.

As demonstrated by the examples of liquid crystal technology, disputes arising from a relationship in which the parties hold and work many patents mutually are typical case examples in the electronics field.

## **Case 2. Toshiba vs. SK hynix**

This is a case of a patent-infringement lawsuit relating to flash memory technology.

Flash memory technology was developed by Fujio Masuoka, an ex-employee of the plaintiff Toshiba, in the 1980s. Flash memory is now widely used as a recording medium for digital cameras, smartphones, USB memory devices, personal computers, etc. Since flash memory was an expensive technology

when developed and its uses were not clear, it was massively underrated by Toshiba, the company of the developer, as well as within Japan. Intel was the first to recognize the usefulness of the technology when Masuoka made a presentation at an international symposium, and the technology began to spread in the market through Intel.

In the 1990s, Toshiba licensed the technology to Samsung Electronics as a means to expand the product market based on this technology. Samsung then made a massive investment in developing the technology, and soon became the world's leading manufacturer in the semiconductor industry.

The dispute in this case was also eventually settled by means of cross-licensing between the plaintiff Toshiba and the defendant Hynix Semiconductor Japan Inc. (a Japanese subsidiary). It should be noted that Toshiba and Hynix Semiconductor (Korea) had had a cross-licensing agreement since 1996, before this case arose. When the agreement expired in 2002, Hynix refused to renew despite Toshiba's request, leading to the beginning of this case.

The parties also fought before a court in the case of industrial technology theft involving the said technology. This case will be detailed in the "Enforcement for Industrial Technology Theft" section below.

### **District Court and Thereafter**

In 2004, the plaintiff Toshiba filed a lawsuit with the Tokyo District Court against Hynix Semiconductor Japan, claiming for an injunction of the assignment of a semiconductor memory device sold by the defendant and for the disposal of the products (2004 (Wa) Case No. 23600). At the same time, Toshiba filed a lawsuit claiming for damages of 300 million yen (Case No. 23600 and 2005 (Wa) Case No. 24177).

Regarding the patented invention of the plaintiff, the defendant alleged that (1) the defendant's product does not fall within the technical scope of the patented invention of the plaintiff, because the claims of the invention do not describe any constitution that is indispensable to the invention, and thus it is not possible to identify the invention as a creation of technical ideas; and (2) the patented invention is not novel, which constitutes a ground for invalidity, etc.

The Tokyo District Court dismissed the allegations of the defendant, and ordered an injunction of the assignment of the defendant's product and the

disposal thereof. As for the damages claim, the court granted damages in the amount equal to the license fee, specifying one percent as a reasonable rate for the license fee.

The defendant appealed this decision to the IP Court, but withdrew the appeal in March 2007. The case was concluded upon the execution of a cross-licensing agreement.

## **ii) Enforcement in the Pharmaceutical Field**

The global pharmaceutical market is worth 952.9 billion dollars (2011). In Japan, it is worth approximately 9.3 trillion yen (2011).<sup>20</sup> The Japanese pharmaceutical market accounts for 11.7% of the global market—the second largest after the United States in terms of individual countries' shares.<sup>21</sup>

Average R&D expenditures by Japanese manufacturers on new drugs is estimated to be around 50 billion yen per drug, and the average period from the beginning of an R&D project for a new drug until it receives pharmaceutical approval is estimated to be from 15 to 17 years.<sup>22</sup> Despite the high cost and long period necessary for developing a new drug, the probability of its success is extremely low.

In contrast to the electronics field, in which one product may involve several thousand (or even more than 10,000) patents, the number of patents in the pharmaceutical field is far lower. For example, there may exist only one basic patent for the primary ingredients of a drug.

Under these circumstances, the single patent inevitably has far greater importance for a pharmaceutical manufacturer to gain profits by exclusively working a new drug that it has developed during a certain time period. New drug manufacturers are thus exposed to the “Patent Cliff” problem, in which the originator drug of a manufacturer could be driven out of the market when it goes off-patent, and generic drugs with the same effective ingredients come to dominate the market. The patent cliff can threaten the operation of a new drug

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[http://www.mhlw.go.jp/seisakunitsuite/bunya/kenkou\\_iryuu/iryuu/shinkou/vision\\_2013.html](http://www.mhlw.go.jp/seisakunitsuite/bunya/kenkou_iryuu/iryuu/shinkou/vision_2013.html)

<sup>21</sup> See, Footnote 20, supra

<sup>22</sup> Strategic guidebook on pharmaceuticals and intellectual property in drug discovery research described by Jun Utsumi (Nanzando) P7, 2015.

manufacturer, and may sometimes lead to fierce disputes over rights between pharmaceutical manufacturers. This section discusses typical case examples in the pharmaceutical field.

### **Case 3. Chugai Pharmaceutical vs. four late-start manufacturers**

#### **a) District Court**

Plaintiff Chugai Pharmaceutical is the patentee of the process patent for the derivative preparation of activated vitamin D3, which is a therapeutic agent for keratosis. In 2013, Chugai Pharmaceutical instituted a lawsuit with the Tokyo District Court against four companies selling generic drugs of the agent, with claims including an injunction of sales based on the patent right, the disposal of the active pharmaceutical ingredients, etc.

The primary points of dispute were: (1) whether the manufacturing process for the generic drugs sold by the four defendants is equivalent to the patented invention of the plaintiff, (2) whether the patent should be invalidated, and (3) whether the patent is valid, and if so, whether the claims for injunction should be approved.

The court ruled that the manufacturing process for the generic drugs of the defendants satisfies the five requirements for being included within the technical scope of the patented invention (which were indicated in the Supreme Court judgment in the Ball Spline case in 1998), on the grounds that the constitutions of the generic drugs are equivalent to the constitution stated in the patent claims of the defendant. Therefore, the working of the defendants' products constitutes an infringement of the effective patent right, and the plaintiff's claims are supported by the court.

#### **b) IP High Court and Supreme Court**

The defendant in the first instance appealed the decision to the IP High Court in the prior instance. The collegiate court of the IP High Court upheld the original judgment and rejected the appeal, roughly for the following reasons:

Since the patented invention owned by the plaintiff in the first instance satisfies all five requirements for being regarded as equivalent indicated in the Ball Spline case, the manufacturing processes of the other parties are equivalent to the constitution described in the claims of the patented invention, and thus are considered to fall under the technical scope of the patented invention.

Consequently, there are no grounds for invalidation.

The case was then brought before the Supreme Court, which dismissed the final appeal by the four defendants, resulting in the plaintiff winning the case.

This is an example of successful enforcement by an originator drug manufacturer.

Since the chemical structures of the substances are clearly described in the claims, it is generally thought that demarcation of the scope of the claims is easy in the fields of medicine and chemistry. However, clearly demarcated claims of an invention do not mean that the application of the doctrine of equivalents is not necessary. If the doctrine of equivalents is not applied, unreasonable situations may result because a third party can avoid exercising the patent right by substituting a non-essential part of the patented invention with another feature. In this case, infringement by the late-start manufacturers was found by extending the technical scope of the patented invention to the part of the defendants' drugs that is substantially equivalent to the invention stated in the claims.

#### **Case 4. Teva vs. Kyowa Hakko Kirin**

##### **a) District Court**

The plaintiff Teva Pharmaceutical Industries Ltd. (an Israeli pharmaceutical manufacturer; hereinafter simply "Teva") is known as the largest manufacturer of generic drugs in the world. The plaintiff owns a patent on pravastatin, which is a drug for lowering cholesterol (LDL). A patent application for pravastatin was first filed by Sankyo (currently Daiichi Sankyo) in 1980. The plaintiff's patent relates to pravastatin, in which the mixed quantities of substances A and B are controlled to be less than certain levels by using a specific manufacturing process. The form of its claims is a so-called "product-by-process."

The defendant Kyowa Hakko Kirin was engaged in the business of selling pravastatin in which the mixed quantities of substances A and B were lower than certain levels. In 2007, the plaintiff instituted a lawsuit with the Tokyo District Court claiming for an injunction of the working of the drug by the defendant and the disposal of the drug stocked by the defendant.

The primary points of dispute were: (i) whether the defendant's drug falls

under the technical scope of the plaintiff's patent, and (ii) the validity of the plaintiff's patent.

Given that the claims of the plaintiff's patent were demarcated in a product-by-process form, the main focus was on whether or not the manufacturing process should be considered when determining whether the defendant's drug falls under the technical scope of the plaintiff's patent.

The court roughly decided that the technical scope of a patented invention must be determined based on the claims of the invention. Therefore, if the claims of the invention state the manufacturing process of a product, the technical scope should not be interpreted by automatically removing the description of the manufacturing process in the claims. However, in cases where the claims of a product invention state the manufacturing process due to the unavoidable necessity to specify the product by means of the manufacturing process, the technical scope of the product should not be limited to products manufactured by that manufacturing process.

The plaintiff's patented invention is "pravastatin in which the mixed quantity of substance A is less than X%, and that of substance B is less than Y%" and the invention is specified by that statement. It cannot be considered that the description of the manufacturing process had to be included for unavoidable reasons. The plaintiff's patented invention should thus be interpreted by limiting it to products manufactured by the manufacturing process stated in the claims of the invention.

The defendant's product is manufactured by a manufacturing process that is different from that of the plaintiff, and for this reason, it does not fall under the technical scope of the plaintiff's patented invention. Therefore, the court cannot approve the plaintiff's claims.

## **b) IP High Court**

The plaintiff in the first instance appealed to the IP High Court against the judgment in the prior instance. The plaintiff's primary allegations were: (i) It is not necessary to interpret the technical scope of the product-by-process claims by limiting to products manufactured by that manufacturing process, and products manufactured by a different process should be included in the scope of products that are equivalent as products; and (ii) The opinion of (i) has been widely supported in past decisions and the examination standards of patent offices, and the judgment in the prior instance is contrary to this opinion.

The IP High Court upheld the opinion of the original decision, and declined the claims of the plaintiff. The reasons are as follows:

When a lawsuit claiming for an injunction or damage on the grounds of a patent right infringement has been instituted, it should be considered that the technical scope of the patented invention that serves as the grounds for the allegation is specifically demarcated by the text of the claims. An interpretation that the specific text of the claims is not meaningful enough to limit the technical scope of the invention, if such is possible, may damage the trust of third parties who took actions in accordance with the text of the claims.

After stating the foregoing, the court upheld the decision of the District Court, which ruled that the patented invention of the appellant (the plaintiff in the District Court) does not seem to have a special circumstance under which the product cannot be specified unless its manufacturing process is stated in the claims of the invention. Therefore, its technical scope is limited to products manufactured by the manufacturing process, and, as a result, the court cannot support the appellant's allegation.

### **c) Supreme Court**

The appellant in the second instance of the IP High Court appealed to the Supreme Court against the judgment of the IP High Court.

The Supreme Court overturned the original decision, and ruled that the case should be referred back to the IP High Court. The reasons therefor were roughly as follows:

Where a patent is granted to an invention of a product, the effects of the patent extend to other products whose structures and characteristics, ~~etc.~~ are identical to those of the patented product, regardless of the processes used to manufacture them. Even where the manufacturing process for the product is described in the claims of the patent for the invention, the technical scope of the patented invention should be determined to be any products whose structure and characteristics are identical in to the manufactured product based on the manufacturing process in the claims.

The decision in the prior instance is erroneous in that the technical scope of the patented inventions should be determined, in principle, by limiting to products manufactured via the process stated in the claims of the invention.

After the offence and defense as described above, the case was sent back to

the IP High Court. The defendant consistently refuted to the effect that there had been no infringement on the patent, and that the patent was invalid. The lawsuit ended in 2015, when the plaintiff waived the claims.

This case, in which enforcement by the right holder eventually did not succeed, is a typical example in which pharmaceutical manufacturers fight fiercely regarding the existence of an infringement.

### **iii) Enforcement in the wireless communication and optics field**

As the market for communication devices centering on smartphones develops rapidly, new entrants are rapidly entering the market in this field. In line with these trends, lawsuits involving SEPs (Standard Essential Patents) are also increasing.

A standard is a technical specification commonly used for the purpose of improving economic efficiency by securing product compatibility and the spread of technology. Since SEPs are essential to a standard, using the standard without authorization constitutes an infringement. If SEPs are exercised unconditionally, business entrants and other entities would readily become infringers, causing significant confusion.

To users of a standard, the availability of SEP licenses is promised in advance in accordance with FRAND (fair, reasonable and non-discriminatory) terms. FRAND are the terms that SEP holders promise to a standardization organization to comply with when licensing their patents.

This field is known for the fact that one product comprises numerous patented technologies, often amounting to several thousand or even several tens of thousands of patents. Among these patents, many are identified as SEPs. How to view FRAND and how to align the interests of SEP holders and those of users are very difficult issues.

Enforcement by SEP holders, who have made FRAND commitments, differs from enforcement discussed so far in certain aspects. This section introduces examples of such differences.

#### **Case 5. Samsung vs. Apple**

The legal battle between Samsung and Apple has been fought in many places throughout the world, and still has not ended. The underlying cause of the battle



was that Apple unveiled the iPhone in 2007, which Google countered by introducing Android, although it had been Apple's comrade. The mobile phone launched by Samsung in 2010 incorporated Android, which was offered free-of-charge as an open source platform for mobile phone terminals. Apple regarded Android and products incorporating Android as plagiarism. The series of court disputes between Apple and Samsung was initiated with a preemptive action by Apple. Samsung soon began counterattacks, and instituted lawsuits in many places alleging that the iPhone and other Apple products infringed its patents.

This section introduces the patent-infringement lawsuits instituted in Japan by Samsung against Apple.

#### **a) District Court**

The plaintiff Samsung filed a lawsuit with the Tokyo District Court claiming for an injunction of the production, assignment and import of Apple's iPhone3.G, iPhone 4, etc., based on the allegation that these Apple products infringed its patent rights on the mobile communication system.

The District Court declined the claim of the plaintiff on the grounds that: (i) as an SEP holder, the plaintiff is in violation of the good-faith obligation to conduct negotiations in good faith for a license agreement under the FRAND terms, and (ii) the plaintiff's exercise of the right to seek an injunction against the obligator-defendant without fulfilling its good-faith obligation constitutes a rights abuse and is not acceptable.

#### **b) IP High Court**

The plaintiff appealed the decision of the District Court to the IP High Court, which declined the allegation by the plaintiff for the following reasons:

It is not reasonable to allow an SEP holder subject to the FRAND commitment to exercise the right to seek an unlimited injunction, because (1) such benefit harms the trust of prospective users of the relevant standard, (2) it provides excessive protection to patented inventions, and (3) it hinders the broad social utilization of the technology for patented inventions.

When a company intends to manufacture or sell a product in compliance with a standard, the company will begin investment only after confirming that conditions are such that it can be licensed to use various IP rights subject to the FRAND terms in the future, in accordance with the IP right handling policy of the

standardization organization that set the standard. If the right to request an injunction based on an SEP is granted later, the trust of companies that made investments—based on the expectation of obtaining licenses subject to the FRAND terms would be lost.

SEP holders declare their commitment to FRAND licensing through their own will, and under the assumption that their patents will be used. By having their patents incorporated in a standard, SEP holders can obtain a wide range of potential licensees. As long as SEP holders can earn payments for their patents by FRAND commitments, the possibility that they will be granted the right to request an injunction is low.

In this case, the IP High Court also discussed the intention for users of a standard to be licensed, which the court considers to affect whether the patent right can be exercised. The following section introduces a case in which a similar decision was awarded.

#### **Case 6 Imation vs. One-Blue**

The SEPs on a standard-compliant product are often collected in a patent pool to manage license agreements centrally. The term “patent pool” as used in relation to a standard refers to a mechanism in which SEP holders for the standard gather their rights in a certain organization, and put licenses for these rights under management of such an organization. The mechanism is intended to facilitate smooth licensing by gathering many SEPs in one location.

The case is an example in which a dispute arose in relation to the exercise of rights by a company responsible for the management of SEPs in a patent pool for a Blu-ray disc product (“BD”).

The defendant One-Blue is a U.S.-based corporation responsible for the management and operation of the patent pool. One-Blue collectively undertakes licensing services in relation to the SEPs. For SEPs, FRAND-based licenses were made readily available.

The plaintiff Imation (a U.S.-based corporation) does not participate in the patent pool, and handles the BD without a license in the United States.

One-Blue demanded that Imation immediately stop the unauthorized sale of the BD and enter into a license agreement, and presented a pre-determined

license fee (a in Table 2-1).

Imation countered this by stating: (1) The presented license fee is not “fair and reasonable,” (2) the plaintiff intends to pay a “fair and reasonable” license fee; and (3) the plaintiff requests the defendant to provide information necessary to determine what kind of license terms meet the FRAND criteria; for example, the terms and conditions with other licensees (b in Table 2-1).

Table 2-1. Actions and counteractions taken by the parties	
Imation	One-Blue
	← a) Demand suspension of sale of BD, propose a license agreement
b) Express the intention to execute an agreement/propose a specific license fee →	← c) Reply demanding “fair and reasonable” terms
d) Respond to reject the terms in the reply, etc. →	
Imation (Japanese subsidiary)	
f) Prepare for discussions on royalty rate, etc. →	← e) Propose a license agreement to the plaintiff
h) Demand withdrawal of allegation, agreement under →	← g) <u>Send a warning of infringement</u> to three retailers (allegation)
j) Institute this lawsuit →	← i) Express dissatisfaction with response, counterarguments, etc.

As shown in Table 2-1, the stage moved to Japan after some exchanges between the plaintiff and the defendant (c and d in Table 2-1). Likewise in the United States, One-Blue demanded that the plaintiff Imation’s Japanese subsidiary enter into a license agreement specific to One-Blue (e in Table 2-1). In Japan as well, the two parties failed to make terms with respect to the license agreement, and One-Blue demanded that Japanese mass retailers handling the products of Imation stop selling the BD, alleging that the BD is an infringing product (g in Table 2-1).

The plaintiff filed a lawsuit (j in Table 2-1). This was not a patent-infringement lawsuit instituted by the SEP holders (management company), but a lawsuit under the Unfair Competition Prevention Act instituted by the plaintiff, i.e. the user of SEPs, against the defendants, i.e. SEP holders. The plaintiff alleged that

the defendant did not have the right to seek an injunction based on the SEPs, and that the defendant's behaving as if they had the right to ban the sale of the BD constituted an act of making a false allegation under the said Act and was not acceptable.

The Tokyo High Court supported the allegation of the plaintiff. By quoting the judicial ruling described in Case 5, the court ruled that the defendants are SEP holders subject to FRAND commitments, and cannot exercise the right to seek an injunction without limitation; and that the defendants are therefore abusing the right. The defendants do not have the right to seek an injunction, and their behaving as if they had such right constitutes an act of making a false allegation under the Unfair Competition Prevention Act.

Similar to the ruling in Case 5, the court held that where an SEP user does not intend to be licensed under the FRAND terms, SEP holders may exercise their patent rights, but otherwise, enforcement based on SEPs is not acceptable.

As shown in Table 2-1, the plaintiff was found to have an intention to acquire a license under the FRAND terms, considering the series of stances demonstrated in the course of negotiations for acquiring a license. On the other hand, the negotiating stance of the defendants for such agreements was found to be weak. This finding led to a decision of abuse of their rights by the defendants.

Cases 5 and 6 show that unlike the cases so far described herein, restrictions may be imposed upon enforcement by right holders in the field of standard-related technology. This does not mean that the rights of SEP holders are weak. Rather, technologies chosen for a standard are those that people have no choice but to use commonly. SEPs are highly valuable in terms of both technology and finance, because they have the potential to create a new market around the standard incorporating the SEPs. The SEP holders are key players in the formation of such markets, and have stronger power than ordinary patentees.

#### **iv) Enforcement against industrial technological theft**

The problem of infringement of an IP right (particularly of a patent) may occur when a non-patentee inadvertently infringes another person's patent right in the course of independently developing a technology at his/her company.

Sometimes, this may not be a case.

If an infringement involves theft (meaning that a person acquires information concerning the technology for a product by wrongful means, and creates another product based upon that information), the act constitutes a crime. If a patented invention has been worked without authorization, regardless of whether someone has developed a technology independently or by means of theft, the act still constitutes an infringement of the patent right. When this happens, the first option of the patentee is to consider enforcement based on the patent right.

Suppose that Company A has a technology, but has not acquired a patent for important parts of the technology. If the information (trade secret) placed by Company A under confidential management was stolen, and a product has been developed by another company by using that information, what kind of enforcement is available to Company A? In cases where the product has been created by using both the stolen information and the other information concerning a patented technology owned by Company A, Company A can make an enforcement action based upon the patent right. However, if the stolen confidential information has many important roles in the manufacture of the product, enforcement based on the patent right may not be sufficient. Furthermore, if the product has been worked outside Japan, it is fundamentally not possible to implement enforcement based upon a Japanese patent.

This section introduces cases of enforcement against the theft of technology.

### **Case 7. Enforcement by Nippon Steel & Sumitomo Metal Corporation**

In 2012, the plaintiff Nippon Steel (currently, Nippon Steel & Sumitomo Metal Corporation (NSSMC)) instituted with the Tokyo District Court a lawsuit under the Unfair Competition Prevention Act against POSCO (in Korea), POSCO Japan and Ex-employee A, etc. of Nippon Steel, alleging an infringement of trade secrets. The grounds for this allegation were, briefly, that the defendants (i) conspired to wrongfully plagiarize the secrets concerning the manufacturing process and equipment for the plaintiff's oriented magnetic steel sheet, (ii) mass-produced high-quality steel sheet in an extremely short period by using this secret, and (iii) caused an enormous loss to the plaintiff. Under the Unfair Competition Prevention Act, the plaintiff claimed for (a) an injunction of the manufacture and sale by the defendants, (b) disposal of the wrongfully acquired information, and (c) compensation totaling damages of 98.6 billion yen.

Oriented magnetic steel sheet is a material used for components of transformers. Unlike ordinary steel sheet, it is easy to magnetize in one direction, which makes it a special material that cannot be easily manufactured. The plaintiff laid open as a patent a portion of the information concerning the manufacture of the steel sheet, but managed the rest of the information as a trade secret.

The defendants raised objections to the jurisdiction of the court. Their allegation was that since the defendants' product was manufactured in Korea and sold in countries including China, the lawsuit should be fought by applying the laws of these jurisdictions instead of Japan's.

This dispute was eventually settled when POSCO paid a settlement of 30 billion yen to NSSMC, and both parties withdrew all the lawsuits other than this one. The dispute between NSSMC and the ex-employees was settled in 2017 by an apology from the ex-employee, leading to the settlement of all relevant disputes.

In enforcement under the Unfair Competition Prevention Act, a person becomes subject to a criminal punishment if he/she commits a theft or other act of usurping control with the intent to use the stolen information outside Japan, or if he/she has used the trade secrets obtained by such act outside Japan (Article 21 of the said Act).

### **Case 8. Enforcement by Toshiba**

As mentioned in the description of Case 2, this case relates to the technology of flash memory (semiconductors). Ex-employee A, when he moved to a new job, stole information that was managed as a trade secret of Toshiba and leaked it to the new employer, SK hynix. This incident was revealed to Toshiba by B, who was a colleague of A at Toshiba and also at SK hynix.

Toshiba filed a criminal complaint in 2013, alleging a violation under the Unfair Competition Prevention Act.

The Tokyo District Court sentenced A to imprisonment with work for a period of five years and a fine of 3 million yen, on the ground that Toshiba lost competitive strength due to the extremely serious disclosure of trade secrets.

A appealed to the Tokyo High Court against this judgment, but the court

upheld the judgment of the first instance and dismissed the appeal. The court rejected the allegation of the appellant to the effect that the information removed from Toshiba was not particularly useful, and thus the punishment was excessively severe. The High Court ruled that the sentence in the first instance was not unreasonable, considering that the data was essential to the manufacture of high-quality products at lower cost.

Along with this lawsuit, Toshiba instituted a civil suit against SK hynix with the Tokyo District Court, claiming for damages of approx. 110 billion yen, on the grounds of theft by the defendant of its trade secrets. In 2014, the case was settled when SK hynix agreed to pay Toshiba settlement money of approx. 33 billion yen.

### **3) Enforcement against imitation of distinctive features and designs**

#### **i) Case examples of trademark and brand violations**

Among all IP rights, damages for trademarks are the largest, followed by patents, utility models and designs, in this order. In many industries, falsification of brands, dead copying of products (wherein another person's product is imitated in its entirety), and exact copying of designs are burgeoning. The problem of imitations is becoming increasingly more complex and sophisticated. For example, a television appears to have no trademark from its appearance, but when it is turned on, it shows a famous trademark of another person. Another example is a product manufactured with a design very similar to a famous product, wherein a trademark is not attached until immediately before its sale.

A primary countermeasure taken by companies to prevent damages to their trademarks is to acquire trademark rights. Through this approach, companies can send a warning to the infringer before resorting to legal enforcement, and can prevent the damage from expanding. In the case of goods with a large market, it is effective to use the international registration system. In some industries such as automobiles, manufacturers are strengthening their design rights in order to prevent damage from imitation of their designs.

In the case of imitation of distinctive features and designs, certain case settlements are sought before initiating a lawsuit by means of issuing a warning

(as described above), criminal exposure, control by customs, and so on. However, there are cases where the existence of a right infringement, including whether or not the product in question constitutes an imitation, is called into question in an actual trial. This section introduces trials for trademark infringements in Japan (although they do not relate to articles entering the Japanese market), and discusses enforcement practices.

### **Case 9. Case example of typical trademark right enforcement**

The plaintiff, a joint-stock company engaged in the direct mail agency business, holds the registered trademark “Yu Mail” (in standard letters), and the designated services of “delivering advertisements to every household, ..., etc.”. The plaintiff filed an application for this trademark on April 30, 2003, and had it registered in 2004.

The defendant is a joint-stock company founded on October 1, 2007 in conjunction with the privatization of postal services. It is engaged in the business of postal services succeeded from Japan Post. The defendant provides the service of delivering mail under the mark of “Yu Mail” (“Defendant’s Mark 1”) in the course of its trade.

The points of dispute were: (1) whether the defendant’s use of the Defendant’s Mark 1 in its service constitutes an infringement of the plaintiff’s trademark right, and (2) whether the plaintiff’s trademark right should be invalidated/ whether enforcement is acceptable.

The Tokyo District Court roughly decided as follows:

a) Regarding the trademark

The registered trademark is “Yu Mail” in standard letters, and is identical with Defendant’ Mark 1.

b) Regarding the service and use of the trademark

The defendant began using the Defendant Mark 1 in 2007. For example, in the course of providing the service, the defendant clearly indicated the Defendant’s Mark 1 on the surface of each packet in locations highly visible to users. The defendant advertises to the effect that its service can be used to deliver postal items containing advertisements such as goods catalogs, pamphlets and direct mail.



The designated services of the plaintiff include “delivering advertisements to every household.” The service of the defendant and that of the plaintiff are common in that they both involve delivery of advertisements, and are considered to at least have a relationship of similarity.

c) Whether there are grounds for invalidating the registration of the trademark

The District Court ruled that there are no grounds for invalidation based upon the following consideration:

(1) The defendant’s trademark “Yu Pack” was already famous in 2004 when the plaintiff’s trademark was registered, so it cannot be said that the plaintiff’s trademark “Yu Mail” was likely to be confused with the service being offered by the defendant under the famous trademark “Yu Pack.”

(2) In 2003, before “Yu Mail” was registered by the plaintiff, the defendant was approached by the plaintiff to enter into a joint business under the trademark “Yu Mail”, but declined. Despite this fact, the defendant later filed an application for registration of Defendant Mark 1 for use within the scope of service, which was identical with or similar to the designated service of this case. The defendant was rejected on the ground of the plaintiff’s prior application. When the plaintiff had filed the prior application, the defendant did not appear to have an intention to use the same trademark. Considering these facts, it cannot be found that the plaintiff had pre-emptively registered the trademark “Yu Mail” with a wrongful purpose.

Based on the decisions described above, the court found an infringement of the trademark right. The defendant appealed to the IP High Court against this judgment. In 2012, the parties reached a settlement when the defendant purchased the trademark right from the plaintiff.

In 2004, the defendant was granted the trademark registration for several services in relation to the Defendant’s Mark 1, but not for the service which was found to be infringing in this case. The holder of a trademark right does not have the right to use the trademark for goods or services other than the designated ones. This case was an example in which enforcement by the proper holder of a trademark right was approved.

**Case 10. Example of the use of an invalidation trial to extinguish the counterparty’s right**

There are many cases where a person registers a trademark that appears to be utilizing another person's famous brand. In an imitative manner, with the intention of taking advantage of the customer appeal of such brand for the sale of goods, and operates a business by utilizing such trademark. In such a case, the holder of the trademark right whose interests have been harmed by the other party's operation of the business may initiate an invalidation trial in an attempt to extinguish the other party's trademark right, on the ground of the existence of the plaintiff's trademark.

This case example is a series of legal cases in which a world-famous company, which was engaged in the manufacture and sale of sporting goods, sportswear, etc., instituted lawsuits to invalidate the registered trademark (B in Fig. 2-5) of a company engaged in the sale of gifts and souvenirs in Hokkaido, by using its famous registered trademark (A in Fig. 2-5) as a cited trademark. In the trial, it was decided that the registration of the demandee's trademark should be invalidated on the ground that (i) it is contrary to public policy (Article 4 (1)(vii) of the Trademark Act), and (ii) it is likely to cause confusion with the demandant's goods with respect to the source (Article 4 (1)(xv) of the said Act).

Fig. 2-5 Cited trademark and trademark of this case in Case 10



The demandee (plaintiff) filed litigation for rescinding the trial decision with the IP High Court, which dismissed the plaintiff's claim primarily for the following reasons:

The trademark of this case and the cited trademark are considered to be remarkably similar in appearance when observed as a whole from afar. More specifically, the two trademarks are remarkably similar in terms of the characteristics of the four European letters, with all letters arranged in the same sequence with the sole exception of "K" and "P". In both trademarks, all letters are designed to form a logo that is a horizontally long rectangle, and gives a common impression as a whole. The relative position between the letters and the animal is also the same. The animals (a bear and a puma) differ in kind, but both are quadruped and protrude their forelimbs in the left-hand direction. The designs of the animals are also common in that they are depicted in silhouette, and face toward the European letters.

Considering the transactions, it is considered that the plaintiff's trademark is likely to cause consumers to associate it with the famous cited trademark of the defendant when it is used on the designated goods, thereby causing confusion with respect to the source (namely, that the goods were manufactured by someone who is economically and organizationally related to the defendant). (In this case, the court found grounds for invalidation under Article 4 (1)(vii) of the Trademark Act, of which the details are omitted here.)

The effects of a trademark right extend not only to the monopolistic right thereof, but also to the prohibitive right (which has the sole function of excluding use by others). The monopolistic right of a registered trademark represents the scope in which the trademark holder can positively utilize the registered trademark, and the scope of the goods or services designated when the trademark was registered. The prohibitive right of a registered trademark represents the scope similar to the registered trademark/designated goods, ~~etc.~~, which may not be utilized not only by third parties not entitled to the registered trademark right, but also by the trademark holder. If a person other than the trademark holder utilizes the trademark in this scope, confusion with respect to the source may arise, and the trademark holder can implement enforcement (such as an injunction) against such persons.

This case is an example in which the right holder of a famous brand caused the counterparty's right to be extinguished, rather than exercising the right to

seek an injunction based on its exclusive right against the counterparty. The counterparty was the right holder of a registered trademark, and its use within the scope of the exclusive right is legitimate. If we take the stance that the enforcement of laws, or the exercise of rights, is positioned at the center of enforcement, the position of this case would surely be peripheral. However, in the case of disputes between trademark holders arising from imitation or other similar acts, a corrective action that is viable and characteristic of this type of dispute would be for the rightful right holder to retain its right by causing the counterparty's right to be extinguished. Considering that enforcement refers to various remedies to inhibit imitations or other similar acts and the procedures therefor as a whole, this case is considered to represent an effective means of enforcement against the imitation of distinctive features.

## **ii) Case example: Violation of the Unfair Competition Prevention Act**

Enforcement against the imitation of designs is grouped into two types: the Design Act and the Unfair Competition Prevention Act. Enforcement under the Design Act focuses on remedies of rightful right holders against imitation of the configuration of goods. In contrast, enforcement under the Unfair Competition Prevention Act seeks to relieve those who are gaining profits through rightful sales efforts, when the balance of fair competitive relationship in the market has been disrupted due to acts of imitating the configuration of goods.

Prior to 1993, the question of whether or not the sale of products that imitated the form of other products was illegal in Japan had been judged under either the Design Act or the Copyright Act, depending upon which of the requirements for creativity (i.e., those under the Design Act or those under the Copyright Act) were satisfied by the configuration of the imitating goods. If an act satisfied neither of the requirements, it was not possible to take effective actions against the imitation of goods.

This section introduces an example of enforcement under the Unfair Competition Prevention Act.

### **Case 11. Case of imitation of goods assortment**

The plaintiff had been selling a towel set (Fig. 2-6) under the name "BEAR'S CLUB" since June 1994.

The defendant sold a towel set (Fig. 2-6) under the name “DECOT BEAR’S COLLECTION” from May to August of 1995.

As shown in the figures, both products comprised a doll, a towel hanger, a face towel, a wash towel, a bath towel and a packing box or wicker basket.

The plaintiff claimed compensation for the damages incurred by the act of the defendant, on the grounds that the goods sold by the defendant were imitations of the plaintiff’s goods being sold by the plaintiff, and that the act constituted an act of unfair competition under the Unfair Competition Prevention Act (Article 2 (1)(iii) of the said Act).

Fig. 2-6 Plaintiff's and defendant's goods in Case 11



Plaintiff's goods



Defendant's goods

There are four points of dispute, as follows:

- a) Whether the defendant's goods imitate the plaintiff's goods;
- b) Whether the configuration of the plaintiff's goods infringe the trademark right of a third party, and if so, whether the plaintiff's goods can be protected under the provision of Article 2 (1)(iii) of the said Act;
- c) Whether the plaintiff has suffered damage; and
- d) The amount of damage that the plaintiff can claim for compensation against the defendant.

The Osaka District Court roughly decided as follows: (Dispute points 1 and 2 only are stated here.)

### **Regarding Dispute Point 1**

The concrete configurations of the plaintiff's and the defendant's goods are that the former is placed in a packing box and the latter in a wicker basket. Since both products are displayed in a packing box or a wicker basket at stores and purchased by consumers in that condition, it is reasonable to focus on the goods as placed in their containers.

When viewed from the front, it can be seen that the most conspicuous feature of the plaintiff's goods as placed in the packing box is that the stuffed bear cub and the towels with the pictures of bear cubs individually form a large block, and these blocks as combined with each other comprise the entire product.

The stuffed bear cubs in the plaintiff's goods and in the defendant's goods are almost identical in terms of size, color and expression. These goods are also identical insofar as a triangular-pyramid-shaped red hat with a white ball on top is placed on the left ear of the bear cub, and a round ring hanger is attached to the chest of the bear cub. These factors characterize the stuffed bear cub, and attract the attention of viewers. Based on these aspects, it is considered that the entire assortments of these goods are almost identical in configuration.

As the defendant pointed out, the plaintiff's goods and the defendant's goods differ in the pictorial design, color, posture and clothes of the bear cubs as drawn, as well as in the number of pictures and logo letters. However, these differences should be regarded as minor relative to the common points in the fundamental part, and the identicalness of the stuffed bear cub.

The towels included in the plaintiff's and the defendant's goods are common in that several cute bear cub pictures are drawn therein, that the colors of the clothes and hats of the bear cubs consist of red, blue, green and yellow, and that the logo primarily composed of "BEAR" is indicated between the bear cub pictures. These factors are the basic part of the patterns of the towels, and are strongly eye-catching within the configuration.

The compositions of these goods are identical, and their sizes are almost the same. Although the relative positions of the towels and the stuffed bear cub in the plaintiff's and the defendant's goods are left-right reversed, this is not a major configurational difference because the stuffed bear cubs and the towels

that are configurationally almost identical between these goods are placed in the same assortment in the box and the basket.

(...) Taking the foregoing together, it is reasonable to find that the plaintiff's and the defendant's goods are as a whole substantially identical in configuration. It is presumed that the defendant imitated the plaintiff's goods in a subjective manner when it designed its goods, on the grounds that (i) the sale of the plaintiff's goods began eleven months prior to the start of sale of the defendant's product; (2) before manufacturing its goods, the defendant referenced the goods already on the market (Witness A); and (3) the defendant chose to sell goods that are substantially identical with the plaintiff's goods in configuration and assortment, even though there was room for choice in determining the configuration of a towel set with the motif of a bear cub.

## **Regarding Dispute Point 2**

The towels in the plaintiff's goods have a "BEAR'S CLUB" logo (the name of the goods) printed thereon, and are placed in the packing box so that the logo is visible from outside the box.

Immediately after this lawsuit was instituted, Company B became aware of the existence of the plaintiff's goods from a newspaper article, and sent a notice to the plaintiff warning that the sale of the plaintiff's goods infringes Company B's trademark right. Admitting its infringement of B's trademark right, the plaintiff reached a settlement with B, promised to discontinue manufacturing its goods, and paid settlement money. Considering the foregoing, it must be considered that the sale by the plaintiff of its goods named "BEAR'S CLUB" constituted an infringement of B's trademark right.

In response, the defendant alleged that the plaintiff, who had disturbed the trade order by infringing another person's trademark right, had not been eligible to seek protection of the configuration of its goods under the Unfair Competition Prevention Act.

It should, however, be understood that even if a victim of an act of unfair competition infringes another person's trademark right, this fact alone does not immediately preclude the victim from claiming its rights under the Unfair Competition Prevention Act against a person who committed an act of unfair competition. The purpose of the Unfair Competition Prevention Act is to define certain types of acts as acts of unfair competition and to prohibit such acts to ensure fair competition. In order to achieve this purpose, it is necessary to

understand the situation as described above. Furthermore, a victim's act of infringing a trademark right is a legal relationship separate from an act of unfair competition, and it is thus possible, and also suffices, that the act of infringement is regulated separately between the holder of the trademark right and the victim.

Based on the judgments as described above, imitation of goods under the Unfair Competition Prevention Act was found in this case, and a judicial ruling was made on the damage to the plaintiff and the amount thereof.

There have been examples similar to this case, in which imitation under the said Act (Article 2 (1)(iii) of the said Act) was found, but many opposite examples also exist. One of the purposes of Article 2 (1)(iii) of the said Act is to prevent fair competitive relationships from becoming disrupted by a flood of dead copies, or counterfeits and pirated copies created by copying preceding goods almost entirely, into the market. It is necessary, therefore, to determine carefully whether goods are a dead copy or substantially equivalent to a dead copy. For example, in the first instance and the appellate instance of the Dragon Keyholder case in 1998, this point was considered carefully and the judgment of the first instance that the goods were substantially identical imitations was eventually revoked.

However, considering the recent circumstances in which goods created and commercialized in the market by investing considerable funds and efforts can easily be imitated, enforcement under the Unfair Competition Prevention Act like this case is particularly important.

### **iii) Other case examples of violation**

#### **a) Enforcement based on geographical indication**

A geographical indication is used with respect to a product whose noteworthy quality originates from its place of origin, in order to specify that the product originates from that place of origin. The purpose of protecting such indications is primarily to protect environments and localities where excellent agricultural, forestry and fishery products, as well as foodstuffs are produced; and to distinguish agricultural, forestry and fishery products originating from such environments and localities, thereby promoting the development of these industries, as well as sustaining the food culture and ultimately securing the



interests of consumers through these efforts.

In Japan, the Act on Protection of the Names of Specific Agricultural, Forestry and Fishery Products and Foodstuffs (the Geographical Indication Act) was enforced in 2015. Thirty-five items have been registered under this Act as of 2017. In order for a name to be registered, it must be a name from which characteristics such as the place of production and products can be identified (Article 13 (1)(iv) of the said Act). Geographical indications of liquors, such as wine, have already been protected under a domestic law separate from the said Act since the time that Japan joined the TRIPS Agreement.

Members of a group of producers to which the registration of a geographical indication was granted must properly indicate the geographical indication and the GI mark when they provide their products to consumers as goods. Persons other than the above may not affix the geographical indication (Article 3(2) of the Geographical Indication Act). The Minister of Agriculture, Forestry and Fisheries may order a person who has violated this provision (Article 5 of the said Act), and any person who has violated such order, to be punished by imprisonment with work or a fine, or a combination thereof (Article 39 of the said Act).

In overseas countries, the aforementioned violations of the geographical indication registered in Japan have been reported, e.g. Yubari Melon and Tajima Beef. A violating producer was alleged to have affixed a label reading “Yubari Japan Melon” to melons whose place of production and quality were unknown, and then selling them to major supermarkets, primarily in Thailand; and also exporting them to India several times. A page on the website of the producer describing “Yubari Japan Melon” was submitted as part of the evidence. After all of the necessary investigations were completed, a letter of warning was sent to the producer demanding it to discontinue use of the name “Yubari Melon” in Japanese and English, and any other similar names, and to dispose of the labels. The producer replied that it would comply with the demands.

The Geographical Indication Act is effective within Japan only, and thus the registration of a geographical indication does not automatically mean that it will be protected in overseas countries. The Japanese Government states that it will endeavor to ensure that Japanese products sold in overseas countries are clearly indicated as being authentic Japanese products, and can thus be differentiated, through (i) registering the GI mark as a trademark in overseas

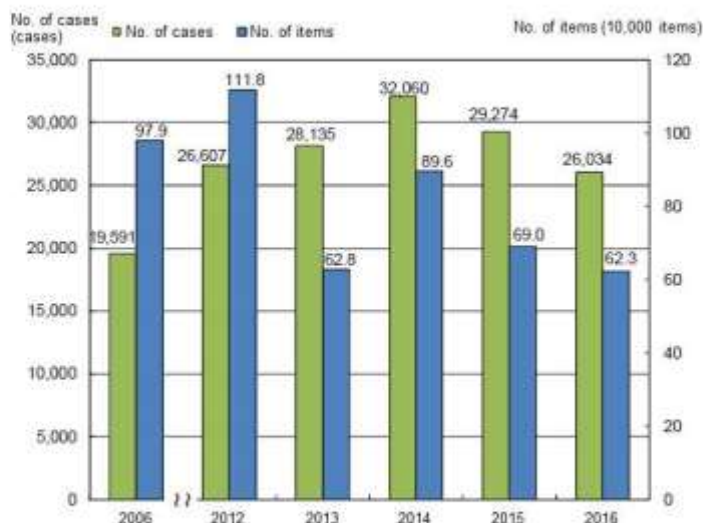
countries, and (ii) establishing a framework for mutual protection between Japan and other countries with the geographical indication protection system.

### b) Case examples of Customs Act violations

The number of injunctions on the import of IP infringing goods from 2012 to 2016 was approximately 26,000 (Fig. 2-7). Until 2016, this number exceeded 20,000 for ten consecutive years, and 25,000 for five consecutive years. By originating country, injunctions on imports from China have accounted for over 90% for five consecutive years (Fig. 2-8). The largest portion of IP infringing goods is accounted for by goods infringing trademark rights.

Among articles subject to injunction, the ratios of trademark-infringing bags, wallets, card cases and clothing are conspicuously large. Typical examples are counterfeits of famous brand goods. In addition, counterfeits of health foodstuffs and drugs are causing problems involving not only trademark rights, but also patent rights.

Fig. 2-7 Trends in number of injunctions on import of IP infringing articles

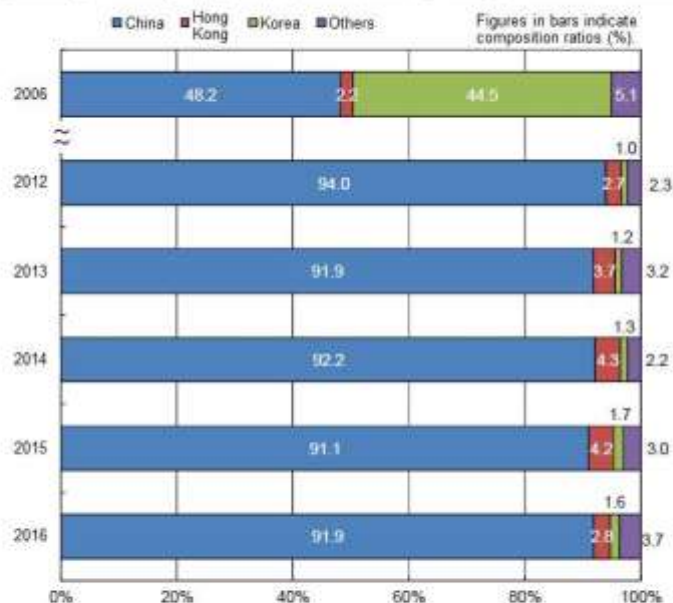


Source: Ministry of Finance website

[http://www.mof.go.jp/customs\\_tariff/trade/safe\\_society/chiteki/cy2016/20170303b.htm](http://www.mof.go.jp/customs_tariff/trade/safe_society/chiteki/cy2016/20170303b.htm)

Methods of evading import injunctions have become increasingly sophisticated. For example, in a case related to the import of an ED therapeutic agent infringing a trademark right, the importer who attempted to separately import the pills, the packaging container, the label for the packaging container and the document attached to the drug was charged.<sup>23</sup>

Fig. 2-8 Trends in composition ratios of import injunctions by originating country (region) (China, Hong Kong, Korea and others)



[http://www.mof.go.jp/customs\\_tariff/trade/safe\\_society/chiteki/cy2016/20170303b.htm](http://www.mof.go.jp/customs_tariff/trade/safe_society/chiteki/cy2016/20170303b.htm)

In another case, a claim for an injunction on the import of a plant was filed under the Plant Variety Protection and Seed Act to protect new varieties of plants. Rush is a plant used to make tatami in Japanese-style houses, and there are many varieties of this plant. “Hinomidori,” a variety created by breeding a domestic species in Miyagi Prefecture and another quality species, is the raw material of a high-quality tatami mat called “Hinosarasa” produced in Kumamoto Prefecture. The government of Kumamoto Prefecture is the holder of breeder's right for this variety registered under the Plant Variety Protection and Seed Act.

In 2003, the government of Kumamoto Prefecture filed a claim for an import injunction on the ground of a Customs Act violation (the then Customs Tariff Act),

<sup>23</sup> Ministry of Finance, Japan  
[http://www.mof.go.jp/customs\\_tariff/trade/safe\\_society/chiteki/cy2016/20170303b.htm](http://www.mof.go.jp/customs_tariff/trade/safe_society/chiteki/cy2016/20170303b.htm)

alleging that the seeds and seedlings of Hinomidori had been taken to China and grown there without authorization. The term of the claim expires in 2018. In relation to this variety the Nagasaki Customs prosecuted a cargo in 2005 that had attempted to be imported through Yatsushiro Port, and filed a criminal complaint. The Kumamoto prosecutor's office filed a formal charge in the same year. The importer was sentenced to pay a fine, and the president of the importer was sentenced to a suspended prison term.

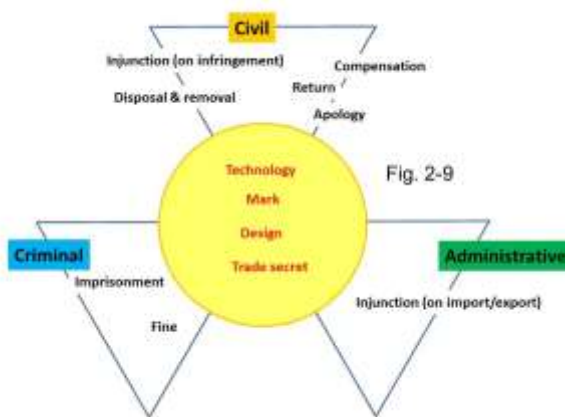
#### **4. Summary**

Various case examples in Japan have been discussed in the preceding sections.

Numerous IP rights are continually created throughout the world, and imitations infringing such rights never cease. We have learned that in order to prevent various kinds of imitations typically committed in IP right infringements, various types of enforcement can be selected as appropriate to individual situations.

To conclude this chapter, a visual image is shown in Fig. 2-9 to help clarify the overall enforcement of IP rights. The yellow circle in the center of the figure represents the existence of IP rights, including technology, marks, designs and trade secrets. The circle is protected by three wings, each representing civil, criminal or administrative enforcement, and stretching from the center outward. The three wings keep fluttering in order to dispel numerous arrows, or imitations, incessantly attacking the circle. Each wing flutters in coordination with the others, as if to declare that behind them lies an inviolable zone that can never be hit by the released arrows.

The figure likens enforcement to wings, and depicts the remedies and deterrence against infringement of IP rights. As noted at the beginning of this chapter, the time has come for global efforts to establish a harmonized international enforcement framework to fight against the wide-ranging and highly complex problem of imitation. Japan too must determine how to catch the tide and enhance the enforcement of IP rights.



(This chapter is authored by Hideaki Yoshida.<sup>24</sup>)

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### **III. Changing Environments**

#### **1. Limited enforcement under the standard-essential patent (SEP)**

##### **(1) General view of global trend**

In recent years, the interplay between patents and technology standards has been getting more important for technical innovation and economic growth than ever. While patents enable innovative companies to invest for research and development, technology standards ensure the dissemination of interoperable technologies among companies and consumers. The more the interplay becomes important, the more the risk of patent disputes increases. This is due to the nature of patents, wherein the patent holder is entitled to enforce its exclusive rights to protect investment.<sup>25</sup>

When patents are enforced against the implementation of technology standards, it is generally considered that patent enforcement has a negative impact upon the public interest because the dissemination of technology standards is retarded by the exclusive nature of patents. In the field of wireless communications, for example, the delayed dissemination of technology standards may cause not only the slow development of technologies in the industry, but also serves to inconvenience general consumers. A good example to show the adverse influence of decelerated dissemination is the mobile phone.

If a technology essential for mobile phones in wireless communications is protected under patents, the technology might not be available for companies who desire it for the manufacture of their own mobile phones due to high patent royalties among other licensing terms. This might cause the number of mobile phones put on the market to be limited in number. Even if a patent royalty for an individual license is available at an ordinary rate, the royalty would be stacked to substantially prohibit the reach of new comers to the market when there are many patents that are essential for the manufacture of mobile phones.

In many countries, therefore, the enforcement of patents has been limited to the extent that seems to be reasonable on a case-by-case basis when a standard-essential patent (SEP) is declared to be licensed on fair, reasonable and non-discriminatory

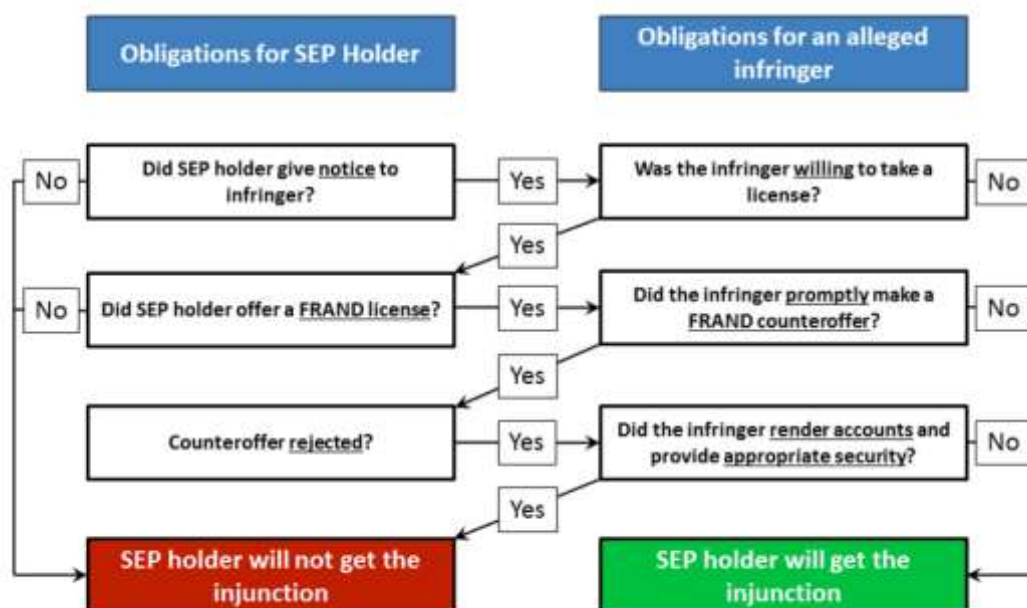
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<sup>25</sup> In the European Union, for example, this issue is regarded as critically important for the achievement of the Digital Single Market. The European Commission released a policy statement in November 2017 in which action items to solve problems are highlighted. See “Communication from the Commission to the European Parliament, the Council and the European Economic and Social Committee – Setting out the EU approach to Standard Essential Patent.” (COM (2017)712 final)

(FRAND) terms. In some countries, the injunction of SEP infringement is limited on various grounds, most typically under the rationale regarding abusive use of the exclusive right under the competition law. In the EU, for example, the European Court of Justice (ECJ) set a judicial framework for injunctive relief regarding SEP in the case of *Huawei v. ZTE*.<sup>26</sup> Fig. 3-1 shows the flow of license negotiation.

Fig.3-1 CJEU process adopted in Huawei

(Source; Georg Nolte “Injunctions in SEP cases in Europe”<sup>27</sup>)



## (2) Case Study: Apple v. Samsung<sup>28</sup>

The outline of this case is already discussed in Chapter II. Nevertheless, this section cites the case again for further discussion in the context of limitation of enforcement.

In 2006, Samsung filed a patent application in Japan for a packet data transmission process. In 2007, Samsung declared to the ETSI (an European standard-setting organization for telecommunications) an irrevocable license in FRAND terms when its patent application for the packet data transmission was granted a patent. A patent was granted to Samsung’s patent application in 2010.

<sup>26</sup> Case C-170/13 *Huawei Technologies*, EU:C:2015:477

<sup>27</sup> An electronic copy of the article is downloadable from: [https://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=2984193](https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2984193)

<sup>28</sup> Tokyo District Court (*Hei 23(wa)*), No. 27941; Intellectual Property High Court (*Hei 25 (ne)* No. 10043; (*Hei 25 (ra)* No. 10007) and (*Hei 25 (ra)* No. 10008)

Apple's smart phones and tablets both implemented the UMTS standard to which the Samsung's patent was related. In March 2011, Samsung sued Apple for infringement of its patent that was declared to be essential for UMTS. The suit was brought to the Tokyo District Court. Apple counter-sued Samsung for a declaratory judgment action (DJA) to ask the court to confirm that there was no right on Samsung to claim damages under the patent.

Even after filing the suit, licensing negotiations remained ongoing between the parties. In July 2011, for example, Samsung informed Apple of its willingness to license its SEP at X% (a figure undisclosed by the court). Apple answered that the proposed rate was too high to accept. In January 2012, Samsung requested Apple to counter-offer its own proposal for the license. In response, Apple offered a royalty at Y%, but Samsung responded that Apple's offer was too low to accept.

The court heard arguments of the parties on the issues of liability and remedies. In addition to technical arguments, Apple raised a contract theory to justify its argument that a patent license contract had been constituted because Samsung declared a FRAND license to the ETSI, and Apple accepted to take the license in FRAND terms. According to Apple, a contract had already been established between Samsung and Apple in legal notion, and under the thus-established contract, Samsung could no longer enforce its SEP. Samsung counter-argued that the license terms proposed thus far were not specific enough so as to constitute a contract between the parties.

The court first decided on the liability issue, and concluded that the SEP was valid and infringed by Apple's *i-Phone* 4 and iPad2. Nevertheless, the court refused the injunction claim and the damages claim requested by Samsung. The court relied on the rationale that Samsung lacked in a bona fide in licensing negotiations, which caused an exercise of the "abusive use of rights" under the *Civil Code*, Section 1.

The case was appealed to the IP High Court.



**[Products in question]**

<iPone4> <sup>29</sup>



<iPad2 Wi-Fi+3G><sup>30</sup>



**[Appeal Court’s Judgment]**

The grand panel heard this appeal case in the appeal court<sup>31</sup>, which decided that the injunction claim by the SEP holder, Samsung, who had declared a FRAND license, would constitute an abusive use of rights under the *Civil Code* when Samsung attempted to enforce its SEP; and that the damages claim also might constitute an abusive use of rights when royalties demanded by Samsung exceeded the scope of the FRAND framework.

The appeal court also established a rule of exception, however, that the damages claim by the SEP holder should not be limited in a case where the other party is not serious about taking a FRAND license. When the other party is unwilling to take a FRAND license, the SEP holder may claim damages in the amount beyond the scope of the FRAND framework. In such cases, the SEP holder bears an additional burden of proof.

Table 3-1 Findings of the two courts in comparison

Court \ Issues	Liability	Remedies	
	Infringement	Damages	Injunction
Tokyo District Court	<b>YES</b>	<b>NO</b>	<b>NO</b>
IP High Court	<b>YES</b>	<b>YES</b>	<b>NO</b>

<sup>29</sup> Source of the photo: Wikipedia ([https://ja.wikipedia.org/wiki/IPhone\\_4](https://ja.wikipedia.org/wiki/IPhone_4)), copyright free under the Creative Commons license.

<sup>30</sup> Source of the photo: Official Site of Apple. Inc. (visited on January 9, 2018) [https://support.apple.com/kb/SP622?locale=ja\\_JP&viewlocale=ja\\_JP](https://support.apple.com/kb/SP622?locale=ja_JP&viewlocale=ja_JP)

<sup>31</sup> The grand panel is formed when the IP High Court considers that the case is important legally and socially. The grand panel comprises five presiding judges from each department of the court.

## 2. Limitation of the enforcement against the patent assertion entity (PAE)

Entities whose business model is to assert patent rights for monetization are increasingly involved in the SEP market. The term “patent assertion entity”, or PAE, refers to a firm that primarily acquires patents from a third party, and asserts them against accused infringers. The PAE generates revenue by licensing its patents, or more rarely, by obtaining court-ordered damages in patent infringement litigation. Furthermore, the PAE generally initiates negotiations that may lead to a license by communicating a demand for payment to, or filing an infringement suit against, an accused infringer. Asserting its patent is a means for generating revenues, and litigation is an indispensable tool for the PAE. Generally, PAEs do not manufacture, distribute, or sell products.

A recent report announced by the U.S. Federal Trade Commission divides business models of the PAE into two groups: Litigation PAE and Portfolio PAE.<sup>32</sup> Litigation PAEs are featured in the tactic of “sue first and negotiate later.” They sue potential licensees first, and settle shortly afterward by entering into license agreements. In this case, the number of patents asserted is small; often fewer than ten patents. The settlement amount is relatively low.

Fig. 3-2 Business model of Litigation PAE'



In comparison, Portfolio PAEs generally negotiate licenses without suing potential licensees. Their licenses cover a large portfolio including a huge number of patents, in the hundreds and thousands. The value of the portfolio license was typically in the millions of dollars. Portfolio PAEs typically funded their initial patent acquisitions through capital raised from investors, including institutional investors or manufacturing firms. Portfolio licenses are active in the field of wireless communications. In Europe, there are a number of pending litigations in which a portfolio PAE is involved as the SEP holder.

In Japan, there are no reported cases involving the portfolio PAE as a party,

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<sup>32</sup> See, “Patent Assertion Entity Activity - An FTC Study,” United States Federal Trade Commission, October 2016, p.15

although the portfolio license business is ongoing.

Fig.3-3 Business model of Portfolio PAE



### 3. Enforcement against counterfeits on the Internet<sup>33</sup>

An analytical report in 2006 stated that some 14 percent of counterfeit and piracy investigations involved transactions carried out over the Internet.<sup>34</sup> The internet has no territorial limits, and has opened the door to infringement of intellectual property rights (IPRSs). Counterfeits of any kind are traded or exploited online or through websites. Massive amounts of copyright-protected content in digital form are also distributed online without permission via dedicated websites or file-sharing networks.

Such activities on the Internet raise a number of legal questions in connection with the enforcement of IPRs. To address these legal questions, the international agreement offers the most comprehensive set of rules (the 1994 *Agreement on Trade-Related Aspects of Intellectual Property Rights* (TRIPS Agreement)). While the TRIPS Agreement sets out a large number of standards, infringement carried out over the Internet has some peculiar difficulties that are not addressed in the TRIPS Agreement. These include, for example, difficulty in identifying the infringer, the application of private international law, and use overseas.<sup>35</sup>

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<sup>33</sup> This section is prepared based on the article "IP Infringements on the Internet – Some Legal Considerations" by Heike Wollgast in the WIPO Magazine, January 2007.

<sup>34</sup> This figure is based on statistics compiled by the Business Action to Stop Counterfeiting and Piracy (BASCAP), see, 15).

<sup>35</sup> Various efforts have been made in order to overcome these shortcomings of the TRIPS Agreement. This resulted in the Anti-Counterfeiting Trade Agreement (ACTA) which is a multinational treaty to set up international standards for the enforcement of IPRs, higher than those of the TRIPS and the WIPO. See Mohammad Bagherpout, "The Enforcement of Intellectual Property Rights in Digital Environment Based on ACTA," *Mediterranean Journal of Social Sciences*, MCSER Publishing, Rome-Italy, Vol. 4, No. 11, October 2013.

### **1) Identifying the infringer**

The information required to identify an online infringer can often only be obtained from the Internet Service Provider (ISP). However, there are no harmonized rules at the international level as to whether the ISP is obliged to disclose a subscriber's identity or other related information. The TRIPS Agreement (Article 47) includes an optional provision that addresses the right of information in connection with civil proceedings, but its application is limited. This is one of the reasons under international settings as to why information that the infringer himself must disclose does not reach third parties.

In this regard, national laws offer different approaches; and efforts have been made in different ways. For instance, the European Union Directive (2004/48/EC of April 29, 2004) on the enforcement of IPRs is supposed to harmonize the situation among EU countries by establishing, in principle, this kind of right of information against certain third parties.

### **2) Issues involving private international law**

Online infringement often involves cross-territorial actions. This raises complicated legal questions regarding private international law and procedures. These questions are not necessarily new, but there is a difference in degree and nature when these concepts are applied to the disputes in the global Internet environment.

One of the questions, for instance, is whether allegedly infringing content that was accessible online in a certain country would be regarded as a sufficient fact to establish jurisdiction of a court in that country. Another question is whether such jurisdiction would extend to determining compensation for the entire damage suffered beyond the country. A further question is how the practice of forum shopping can be dealt with in this context. Although case laws have been developed in this field, the situation remains unchanged in that different national or regional private international laws systems must coexist.

### **3) The risk of being sued abroad**

For businesses involved in e-commerce, compliance with the IP laws of the countries in which a company operates may no longer be sufficient to ensure the reliable management of legal risks. A company may diligently comply with the standards governing the use of IP-protected content on its own territory. However, when the content is used on the Internet, it becomes instantaneously accessible in numerous places across the globe, where some of its use may not be legitimate.

WIPO proposes a possible way to avoid concerns regarding the conflict of trademarks with those in other forums. The provisions address three main questions, which are as follows: When can the use of a sign on the Internet be considered to have taken place in a particular country? Can those who own conflicting rights in identical or

similar signs make use of these signs online, and if so, under which circumstances? And, finally, how can courts take account of the territorial basis of trademark rights when determining remedies? <sup>36</sup>

The effective enforcement of IPRs on the Internet is a complex affair. Developments at various levels are seeking to adapt existing enforcement mechanisms to the specific features of online infringements. As yet, however, diverse national approaches may often make it difficult for rights holders to assess the risks and advantages related to specific enforcement action. This continues to create uncertainty for businesses operating online, as well as for consumers.

In Japan, the risk of IPR enforcement against the use of content on the Internet is coming out as a serious concern for everyone, resulting in counter-measures being taken. Most commonly, the awareness of employees is regarded as key, and many companies and other institutions have their own manuals prepared for the education of their employees. While there are no standardized forms of the manuals, these usually cite actual cases in which the use of goodwill by employees is questioned a violation of the law.

#### **4) Case Study: “e-sight” v. “e サイト” (“esite”)**

In this context, many cases are not reported in Japan. Most of the reported cases are infringements of registered trademarks. Here is one example to show the state of legal implication in this field.

The Plaintiff owns a registered trademark "e-sight" for the trademark class 35 covering the business of management consultancy, market research, provision of information on product sales, and hotel management.

The Defendant uses a mark “e サイト” (or “esite”) for its webpage and business brochures in combination with the corporate name “DoCoMo.” In the dispute before the Tokyo District Court, the Defendant argued that the mark “e サイト”, or its counterpart in English “esite”, is a component of the logo to have been used in combination with the company name “DoCoMo.” The mark has been used, the Defendant argued, as the suffix to the company logo, and it did not function to distinguish the owner of the mark from others.

The court decided that most of the visitors to the webpage are users of the services provided by NTT DoCoMo. The purpose of their visit to the website was to change the

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<sup>36</sup> The WIPO Joint Recommendation Concerning Provisions on the Protection of Marks, and Other Industrial Property Rights in Signs, on the Internet

terms of contracts on mobile phone services. The indication on the website leads the visitor to believe that the webpage is for the Defendant, but not others. There is no confusion among the consumers that the brochures are prepared by the Defendant to introduce its services and products. Under such circumstances, there shall be no confusion with the “e-sight” trademark among consumers.

Table 3-2 The brief of the case “e-sight” v. “esite”

Tokyo District Court, decided Dec. 1, 2004			
Plaintiff's trademark	Defendant mark	TM Class	Conclusion
e-sight	e サイト (esite)	Cl. 35	No confusion

(This chapter is authored by Jinzo Fujino.)