

# **Designing an Intellectual Property Dispute Settlement System for Effective Rights Protection**

February 2019

Patent System Subcommittee  
Intellectual Property Committee  
Industrial Structure Council

## **Chronology of Patent System Subcommittee Meetings**

The Patent System Subcommittee has engaged in considerations on a review of the intellectual property (IP) system to achieve more effective rights protection.

### 25th Subcommittee Meeting (Oct. 15, 2018)

1. Current status of the IP dispute settlement system
2. Invitation of suggestions on issues to consider in reviewing the IP dispute settlement system

### 26th Subcommittee Meeting (Nov. 21, 2018)

1. Issues to consider in reviewing the IP dispute settlement system
  - (a) Presentation from attorney Masakazu Iwakura
  - (b) Presentation from Keidanren (Japan Business Federation)
  - (c) Presentation from the Japan Chamber of Commerce and Industry
2. Results of invitation of suggestions on issues to consider in reviewing the IP dispute settlement system

### 27th Subcommittee Meeting (Dec. 11, 2018)

1. Direction of review of the IP dispute settlement system

### 28th Subcommittee Meeting (Dec. 25, 2018)

1. Discussion points in relation to strengthening evidence collection procedures
2. Discussion points in relation to damages calculation

### 29th Subcommittee Meeting (Jan. 10, 2019)

1. Strengthening evidence collection procedures
2. Review of damages calculation

### 30th Subcommittee Meeting (Jan. 25, 2019)

1. Clarification of elements to consider in Patent Act Article 102(3)
2. Presentation of draft report on the review of the IP dispute settlement system

### 31st Subcommittee Meeting (Feb. 15, 2019)

1. Completion of report

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(Titles omitted)

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## Introduction

The emergence of new technologies like artificial intelligence (AI) and the Internet of Things (IoT) has propelled the world into a fourth Industrial Revolution. As this digital revolution breaks down walls between industries and fans open innovation, new players with new technologies and new business models are transforming the market landscape.

Small and medium enterprises (SMEs) can no longer survive just by relying on major export company customers. As the drivers of innovation, more and more startups are focused from the outset on taking their unique technologies to world markets.

To thrive in this new era, companies need to carefully safeguard the technologies they have developed, utilize them to earn revenue, and then move rapidly to develop further technologies. From another angle, it is also a great chance for companies with outstanding technologies to use these to leap ahead as innovation drivers.

As the foundation underpinning innovation, the intellectual property (IP) rights system must support both the acquisition and exercise of rights. To assist with rights acquisition, the Patent Act was amended last year to allow patent fees for SMEs to be halved as of April this year.

When it comes to exercising IP rights, however, the current system is somewhat lacking. To take process patents, for example, which are included in 35 percent of total patent applications, some firms have noted that when a patented process is used in the infringer's own factory, it can be difficult to gather the necessary evidence to prove the infringement. In the case of software patents, which have grown 1.5 times in the last decade, source code and other elements are easily changed and also often vast, so even if the defendant submits related documentation, it is still not easy to verify its authenticity. For B2B products which are not available on the market, companies have observed that defendants sometimes turn down requests for information disclosure about the volume of materials used, methods of use, and suppliers on the grounds that this is proprietary information, resulting in insufficient information to prove the infringement. An IPR system is meaningless if, even when a patentee has their rights infringed, it does not provide for a prompt and effective response and the patentee just gives up in frustration.

While successive improvements have been made to Japan's patent infringement litigation system over the years to enable users to exercise their IP rights as they should, evidence collection procedures in particular are not as effective as in the West, posing a considerable barrier to taking a case to court. With other countries recently moving to enhance their litigation systems to provide even more effective protection, Japan clearly needs to commit itself to an ongoing review of its IP litigation system while tracking these developments in other countries.

The Patent System Subcommittee has been engaged in deliberations on a review of the IP dispute settlement system since October 2018 with the aim of delivering an IP litigation system that ensures that patent infringement is not a winning option. This report summarizes the content of deliberations to date and makes recommendations for reviewing the IP system toward more effective rights protection.

## **I. Background to Review of Japan's Intellectual Property Dispute Settlement System**

### **1. Characteristics of patent infringements**

Patent infringements have the following characteristics compared to other property rights infringements.

First, patents are easily infringed. Patent rights are publicly disclosed, and infringing them does not require the theft of a physical object, nor are there any restrictions in terms of the time or place of infringement. As a result, infringements are difficult to discover and to prevent.

Second, patent infringements are difficult to prove. Because the infringer has possession of the evidence, it is hard for patentees to acquire particularly in relation to infringements of patents for production processes, B2B and other products not available on the market, and software.

Third, infringements are difficult to deter. The Patent Act provides for criminal charges, but these are seldom exercised due to the sheer technical difficulty of determining whether there has been an infringement.

Given these characteristics, where successive improvements have been made to Japan's existing patent infringement litigation system, Japan needs to commit itself to an ongoing review that recognizes and responds to technological and industrial structural change, making patent infringement unprofitable.

### **2. Trends in other countries' systems**

#### **(1) United States**

In the United States, discovery (whereby the parties disclose evidence to each other) enables highly effective evidence collection. Discovery gives the various parties the right to demand evidence disclosure from the other party, while also obligating them to disclose their own evidence to the other party (Federal Rules of Civil Procedure (FRCP), 26(a) and 34(a)).

Under the US Patent Act, in the case of willful infringement, the court may also award enhanced damages of up to three times the amount found ("treble damages"; Patent Act, Section 284). This together with the jury system is considered to have led to high damages in the United States compared to other countries.

On the other hand, in the 2006 eBay case, the Supreme Court ruled that the patentee must demonstrate four requirements for an injunction to be allowed, namely: (1) that irreparable injury has been suffered; (2) that remedies available at law, such as monetary damages, are inadequate to compensate for that injury; (3) that there is a balance of hardships between the parties; and (4) that the public interest would not be disserved. Compared to Japan, where an injunction is automatically allowed if an infringement is recognized, the requirements for granting an injunction are therefore much more rigorous in the United States.

## *(2) United Kingdom*

In the United Kingdom, as in the United States, the parties to the dispute disclose their evidence to each other, but the court limits the scope of disclosure to that which is reasonable and suited to the scale of the case (Civil Procedure Rules (CPR), Part 31).

There is also an inspection system whereby a representative of the plaintiff is authorized to enter any land or building in the possession of the other party for the purposes of inspecting relevant property and taking a sample of the relevant property (CPR, 25.1(1)(d)).

Where there is concern that evidence might be destroyed, a search order can be issued so that a supervising solicitor designated by the court can be admitted to any land or building in the possession of the other party to collect evidence (CPR, 25.1(1)(h), Civil Procedure Act 1997, Section 7).

Infringement litigation only determines the validity of the infringement, and damages are calculated in a separate proceeding. Once the court has acknowledged the fact of infringement, the parties normally reach a settlement out of court on the amount of damages, resolving the dispute. It is rare that a settlement is not reached and a suit for damages filed.

Cases where the damages are less than 500,000 pounds are handled in the Intellectual Property Enterprise Court (IPEC). The IPEC began operating in October 2013 and has overcome initial teething problems to win a good reputation for the way it handles IP disputes.

In the IPEC, the ceiling for litigation costs (which are borne by the losing party), legal fees included, is 50,000 pounds, while the ceiling for compensation is 500,000 pounds, limiting the amount of risk in the case of a loss.

## *(3) Germany*

The German system is characterized by an inspection system whereby a court-appointed technical expert can enter the building or land in the possession of the other party to collect evidence (Patent Act, Section 140c), and by swift injunctions. The inspection system is used primarily before filing, with comparative weighting at the various procedural stages of the need for the plaintiff to prove the infringement and the need for the defendant to protect trade secrets.

With infringement suits, the judge rules on the existence of the infringement, and damages calculation is initially left to the parties to negotiate. Only if the parties cannot reach agreement is a separate suit brought to determine damages.

The validity of patent rights cannot be contested during an infringement suit, with patent validity and infringement handled in separate procedures. This makes it easier to be granted an injunction through an infringement suit, but there are also cases where procedures have been complicated by a patent becoming invalid after an injunction has been issued.

## *(4) East Asia*

Moves have been underway in East Asia recent years to introduce punitive damages.

China already imposes punitive damages for trademark infringements, but the government has recently been working hard to boost the amount of damages, with the Chinese Patent Law to be amended to increase the amount of compensation to up to five

times and the ceiling for statutory damages raised from one million to five million yuan.<sup>1</sup> The State Council approved the draft amendment to the Patent Law in December 2018, with the amendment now before the Standing Committee of the National People's Congress for deliberation.

In Korea, treble damages have already been introduced in a limited number of areas such as the Subcontracting Act. The National Assembly also passed a bill in December 2018 to amend the Patent Act so that treble damages can be awarded for malicious patent and trade secret infringements (Patent Act Amendment, Article 128(8)), and this will enter into force six months from the date of promulgation (around June 2019). The amendment transfers the burden to the defendant, so that where the defendant denies the specific manner of the infringing action asserted by the patentee, they must present the specific manner of their action, or else the court may draw adverse inference (Patent Act Amendment, Article 126-2).

Treble damages were introduced under Taiwan's Patent Act in 2013 (Patent Act, Article 97).<sup>2</sup>

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<sup>1</sup> In President Xi Jinping's November 2018 keynote speech at the opening ceremony of the first China International Import Expo, he noted that China would put in place a punitive damages system to significantly raise the cost for offenders.

<sup>2</sup> Double damages were introduced in 1994 and raised to treble in 2001, but removed entirely in 2011 before being reinstated in 2013.



## **II. Issues in Relation to the Intellectual Property Dispute Settlement System**

The following issues were identified for consideration based on suggestions from users and other parties.

### ***1. Difficulty of evidence collection***

Patent infringements have been observed as difficult to prove particularly in relation to production processes, B2B and other products not available on the market, and software, so it must be made easier to collect the necessary evidence.

### ***2. Reasonableness of damages calculation***

According to a survey on how reasonable users find the amount of damages awarded in relation to patent infringements, the number of defendants who found the amount reasonable was much the same as those finding it unreasonable, whereas far more plaintiffs (patentees) felt that it was unreasonable.<sup>3</sup> While this level of dissatisfaction does not necessarily mean that the damages awarded in Japan are actually low, the fact is that some users perceive this to be the case.

The amount of damages awarded can also be reduced based on various elements, and there has been some suggestion that the grounds for such reductions need to be clarified.

### ***3. Clarification of court procedures***

While Japan's court procedures may satisfy many parties, the litigation threshold seems daunting to many small and medium enterprises (SMEs) in particular, causing them to hold back on taking cases to court.

For example, some parties filing infringement suits have asked that a system be instituted for garnering a quick injunction followed by negotiations between the parties to determine the exact amount of damages. Such a system is already in place in Germany and the United Kingdom, with most infringement suits ending in a settlement between the parties.

Japan too should therefore lower the threshold for use of the litigation system by creating dispute resolution options geared to user needs and present these to users in an easily understandable format, drawing on the examples of other countries.

### ***4. High litigation costs***

SMEs that file an infringement suit and win can still find that legal costs outweigh the damages awarded so that they actually lose money. This situation could reduce the motivation to acquire and use patents. A better balance therefore needs to be created between the amount of damages that can be won through infringement litigation and the legal costs incurred.

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<sup>3</sup> 2015 Japan Patent Office Survey Report on Issues with the Industrial Property Rights System “Survey Report on Patent Systems and the Operation Thereof Contributing to Reinvigoration of the Intellectual Property Dispute Settlement System”

### **III. Specific Direction of Review**

Four potential solutions were examined in relation to the issues identified above: strengthening evidence collection procedures; reviewing damages calculation procedures; considering the development of dispute settlement options; and considering reduction of the litigation cost burden.

#### **1. Strengthening evidence collection procedures**

##### *(1) Overview*

In the February 2018 Patent System Subcommittee report entitled “Reviewing the Intellectual Property System to Meet the Challenges of the Fourth Industrial Revolution,” we proposed strengthening evidence collection procedures by (i) introducing an in-camera procedure for determining the need for a document submission order; (ii) involving technical experts as fair and neutral third parties once a suit has been filed; and (iii) having third-party technical experts accompany inspectors prior to a suit being filed. The Act of Partial Revision of the Unfair Competition Prevention Act, Etc. that was subsequently passed in 2018 brought in the above in-camera procedure, and also locked in the involvement of technical advisors in that procedure.

A further means of strengthening evidence collection procedures would be to introduce an inspection system. In the March 2017 Patent System Subcommittee report entitled “Strengthening the Functions of Japan’s Intellectual Property Dispute Settlement System,” we noted that we would “continue to look carefully at the introduction of a legally enforceable inspection system.” Since that time, the need has grown for discussion aimed at strengthening evidence collection procedures in order to continue responding to changes in the industrial structure with reference also to developments in other countries revisiting their IP litigation systems.

The Subcommittee consequently examined the introduction of legally enforceable evidence collection procedures.

Patent rights are assigned for either product or process inventions (Patent Act, Article 2(3)). The former comprise inventions embodying a technical idea in the form of a product, while the latter are inventions embodying a technical idea through the combination of multiple phenomena and actions, etc., over the course of time. Specifically, this means inventions in relation to production processes, measurement processes, analysis processes, communication processes, and operation processes, etc.

With patents for production processes, etc., however, it is difficult to determine just by looking at documents, manufacturing machinery, and products whether there has been an infringement, with existing evidence examination procedures not necessarily enabling sufficient elucidation of the truth.

As for product inventions, the growing number of program-related inventions in recent years has been accompanied by a surge in the number of registrations of related software patents, which are becoming particularly important now with the permeation of IoT. In software patent infringement litigation, a document submission order can be issued to require the defendant to present source code and design specifications, but source code is

easily changed and also often vast, so it is difficult to determine whether the submitted source code is authentic and unchanged. If an expert could check source code and other details while operating systems on-site, it would become much easier to determine source code authenticity alongside confirming whether there has been an infringement. Having such a process in place should improve the likelihood that authentic evidence will be presented in response to a document submission order.

In infringement litigation cases in relation to process and software patents, the procedures for evidence collection by an expert should be legally enforceable.

Overseas, the following legally enforceable evidence collection systems have been introduced, with steps taken to garner the cooperation of the alleged infringer in uncovering the truth.

In the United States, as noted above in Section I.2.(1), discovery allows for comprehensive evidence collection.

The discovery process generally operates as follows: (a) a suit is filed; (b) the parties hold a discovery conference; (c) the parties submit to the court a discovery plan reflecting the results of that conference; (d) the court issues scheduling and other orders based on the discovery plan; and (e) the parties undertake discovery in line with the court's orders. The discovery plan notes the agreed timing and format of discovery (for example, the number of people who will be deposed and how electronic documents will be handled), as well as any issues on which the parties did not reach agreement and their respective claims in that regard.

Where agreement was not reached on the scope of disclosure, the party wishing to force disclosure can file a motion to compel. If the court grants the motion, it will issue a disclosure order (FRCP, 37(a)(1)). If a party fails to obey an order to provide or permit discovery, the court may penalize that party by making an adverse inference or by treating the failure as contempt of court (FRCP, 37(b)(2)(A)).

A party from whom discovery has been sought may also move for a protective order, which the court may issue if it recognizes that there is good cause for the non-disclosure of the information (FRCP, 26(c)(1)). Protective orders restrict those parties that can access evidence according to the level of confidentiality, with disclosure of highly confidential information limited to, for example, an outside attorney ("attorneys' eyes only"). In practice, before one party moves unilaterally for a protective order, it is common for both parties to consult and agree on the content of the protective order and jointly petition the court to issue the order based on that agreement.

Germany has an inspection system that can be used to collect evidence under Section 140c of the Patent Act. The procedure entails a technical expert appointed by the court in response to a request from the plaintiff entering the defendant's land or building to gather evidence. Requirements for such an inspection are stringent: (a) there must be sufficient likelihood of a legal infringement (*hinreichende Wahrscheinlichkeit*); (b) the document or item which is the subject of the motion must lie in the control of the defendant; (c) the inspection must be necessary to establish the claims of the patentee; and (d) the inspection must not be disproportionate for the case. This system is used primarily before a suit is filed, but because of the rigor of the requirements, there are only a handful of cases of utilization.

The usual process is: (a) the plaintiff moves for an inspection (at which point the plaintiff promises that only the plaintiff's attorney will be allowed to view the report, and that the plaintiff will be denied access to the information); (b) the court determines that the inspection requirements have been met and issues an inspection order; (c) the technical expert appointed by the court and a court enforcement officer enter the plaintiff's premises to conduct an inspection; (d) the technical expert creates a report on the results of the inspection and submits it to the court; (e) the court hears the views of the defendant and the plaintiff's attorney in-camera, then discloses the report with the confidential sections inked out.

If the defendant refuses to allow an inspection, they may be penalized by the court making an adverse inference or imposing criminal charges (Code of Civil Procedure, Articles 371 and 890).

Similar to Germany's inspection system, France operates a system called *saisie contrefaçon* that enables a technical expert and a court enforcement officer to enter the defendant's premises to gather evidence (Intellectual Property Code, Article 615-5). The requirement for an inspection is that the patent is valid in France. Because there is no need to establish infringement and the inspection can be of a product available on the market, unlike Germany's inspection system, *saisie contrefaçon* is used for a relatively high ratio of infringement litigation cases.

If the plaintiff refuses to allow an inspection, the court can impose criminal charges.

The United Kingdom has a disclosure system which, like the United States, has the parties present evidence to each other (CPR, Part 31). Where the scope of discovery in the United States is extremely wide, in the United Kingdom disclosure is kept "reasonable and proportional." The alleged infringer can also provide a process and/or product description ("PPD") instead of disclosing evidence related to the facts of the infringement (CPR, Part 63.9). A PPD is a document that provides a detailed explanation of the product and/or process which is alleged to infringe the plaintiff's patent, and is signed by a person on the side of the alleged infringer who has sufficient knowledge to verify the content. The signatory is questioned, and bears personal responsibility if an issue is found with PPD content. PPDs therefore provide an objective basis for the court in making a fair assessment of whether there has been an infringement.

The United Kingdom also has an inspection system that gives the plaintiff's attorney the authority to enter the defendant's premises to inspect items or gather samples relevant to the case (CPR, Part 25.1(1)(d)). Since most of the evidence required by the plaintiff to prove an infringement can be obtained through disclosure or PPD, however, this system is seldom used.

A search order can also be used to gather evidence (CPR, 25.1(1)(h), Civil Procedure Act 1997, Section 7). This is a system whereby, if there is concern that evidence might be destroyed, a search order can be issued so that a supervising solicitor appointed by the court can be admitted to a defendant's premises to gather and preserve evidence. While search orders are certainly used in trademark and copyright infringement litigation, however, they are very rarely used for patent infringement cases.

In cases where confidentiality is an issue, the court can restrict those persons who can access trade secrets to a "confidentiality club" at the request of the defendant, obligating those persons to secrecy. Generally, the court appoints a representative of the plaintiff and

a specific individual from the plaintiff's side (not the actual developer but rather an executive from the IP department) as confidentiality club "members".

Where a party does not obey court orders, the court can penalize them for being in contempt of court (CPR, 31.23), and can also issue an "unless order" requiring document disclosure, etc., with sanctions indicated for default (for example, rejecting that party's claims). These various systems allow for effective evidence collection.

Evidence collection systems in other countries could be said to be designed and operated in such a way that the various sub-systems are organically related and function as a whole. The same perspective will be important in considering an evidence collection procedure for Japan.

Given the above, the Patent Subcommittee engaged in the following considerations on an evidence collection procedure for Japan.

(a) *US-style discovery*

While US-style discovery enables examination to be based on a wide range of evidence, it also requires a huge amount of time and money, imposing a heavy burden on the parties involved. There was consequently little support for this approach either among Patent Subcommittee members or outside proposals.

(b) *German-style evidence collection procedures*

Germany's legally enforceable evidence collection procedures focus on the surprise element prior to litigation being filed in order to prevent evidence being destroyed or altered. Concern was expressed that, with this system, it might not be possible back at the stage before litigation has even been filed for the court to garner sufficient material to compare and balance the need to prove an infringement against the need to protect confidentiality, and that it might trigger a rash of over-exploratory and/or abusive inspection motions.

As for evidence collection procedures after a suit has been filed, on the other hand, while some concern was noted over a unilateral and legally enforceable search procedure, there was more enthusiasm for the introduction of an inspection system like Germany's at that particular stage. The suggestion was also made that such a system might be useful for collecting evidence in relation to process patents, large manufacturing devices, and computer programs. Some people agreed with the introduction of a German-style procedure as long as requirements were clarified; felt that it would be important in terms of boosting the parties' perception of the reasonableness of litigation; or suggested that the system should be introduced following sufficient consideration of order issuance requirements and measures to prevent confidential information from being leaked.

To strengthen evidence collection procedures, therefore, we will look first at introducing a new evidence collection procedure to apply after filing, together with measures to prevent abuse of the system and to protect confidential information, etc.

## (2) *Concept for new evidence collection procedures*

In terms of the new evidence collection procedures,<sup>4</sup> an appropriate system would be, as detailed below, for the court to respond to a motion by a party by ordering, on the basis of certain requirements and with full consideration for the protection of confidentiality, a fair and neutral expert to gather the necessary materials from the premises of the other party and create a report.

### (a) *Requirements for order issuance*

Like the document submission orders and orders for presentation of objects for inspection that pertain under current legislation, material collection orders will be issued in response to a motion from the patentee claiming an infringement of their patent rights, and to prevent abuse of the procedures, the requirements for the issuance of an order will be (a) necessity, (b) probability, (c) supplementarity, and (d) reasonableness.

These procedures are intended to encourage the parties to submit evidence voluntarily, and should as a result be operated as a last resort based on the above requirements.

#### (i) *Necessity: Necessity of collecting material to prove infringement*

<Related opinion>

- Unlike procedures prior to litigation, there is no need to require “clear” necessity (Code of Civil Procedure Article 132-4) at this stage.

#### (ii) *Probability: Recognition of probability that the defendant in a patent infringement suit has infringed a patent right*

This requirement will be introduced on the grounds that the evidence collection procedures will impose a burden on the defendant. Specifically, for example, the requirement might be finding that there is sufficient reason to suspect an infringement.

#### (iii) *Supplementarity: No other means of gathering evidence sufficient to determine whether there are facts that should be proved*

This requirement—that there is no other means of gathering evidence sufficient to determine whether there are facts that should be proved—will be introduced on the grounds that the procedures will impose a burden on the defendant.

To avoid any delay in the ordering of these procedures, it should not be required that document submission orders and orders for presentation of objects for inspection have been issued ahead of the procedures.

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<sup>4</sup> A formal name for these procedures remains under consideration. The procedures will target patent infringement litigation.

<Related opinions>

- Given that a suggestion from the judge to a defendant who is being uncooperative over document submission that the procedures might be used is likely to have the effect of encouraging the defendant to submit the documents voluntarily without waiting for actual instigation of the procedures, this requirement should not be made too rigorous.
- If the difficulty of collecting material by other means (Code of Civil Procedure, Article 132-4) is made a requirement, it would prevent the issuance of an order when, for example, a product is easily obtainable on the market. Given that there are many cases where collecting material through document submission and the presentation of objects for inspection could not be described as difficult, however, judges might struggle to find cause to order these procedures, with the result that this system would be seldom used.
- To allow courts flexibility in their direction of litigation, this requirement should not be restricted to cases where, for example, there is no other sufficient means or where the defendant has refused other means.

- (iv) Reasonableness: Not corresponding to an instance where the court finds that it would be unreasonable to collect material given the amount of time required and the burden (financial or otherwise) that this would impose on the defendant, or other circumstances

Particularly in cases of process patent infringements, the collection of material could, depending on how this is approached, impose a heavy burden on the defendant, such as suspension of factory operations and submission of expensive sample products. Therefore, the requirement of reasonableness will be introduced to prevent such an unreasonable burden.

Like dispositions on the collection of material prior to the filing of a motion (Article 132-4 of the current Code of Civil Procedure), this requirement is expected to be operated as a reason for the dismissal of a motion that must be asserted by the defendant.

(b) *Motion items*

When submitting a motion, it will be necessary to set out: (i) the facts to be proven; (ii) documents and articles to be collected, and the relationship between these and the facts to be proved; (iii) the place/s of collection; (iv) the actions that the expert is to undertake; (v) the reasons that probability of a patent infringement will be found; and (vi) the reason that there is no other means of gathering material sufficient to determine whether there are facts to be proved.

Requiring the above to be set out will enable the court to confirm that the requirements for order issuance as noted in (a) are satisfied and prevent abuse of the system. The necessity requirement should be indicated in the above (i) facts to be proved and (ii) documents and articles to be collected, as well as the relationship between these and the facts to be proved.

The level of detail in the motion should be sufficient to enable understanding of the place/s where the expert should collect the material and the subject and scope of collection. Enabling the defendant's views to be heard so that consultation can be conducted prior to

the issuance of an order should allow further specification and facilitate the material collection procedure.

<Related opinions>

- Requiring detailed motion items will make the system difficult for startups to use.
- Consideration should be given to indicating in the annotations, etc., the extent of clarification required in the motion items.

(c) *Agent*

The expert who is the agent conducting these procedures shall enter the defendant's premises and conduct an inspection of the target documents and articles. As the expert could come into contact with a wide range of the defendant's trade secrets, and as the results of the inspection could impact on the outcome of proceedings, the court shall appoint a fair and neutral third party.

The court will be enabled to appoint an expert from a wide range of professions, including lawyers, patent attorneys and researchers, on the condition that the obligation to protect confidentiality is imposed.

<Related opinion>

- Experts should be restricted to those persons who already have an obligation to protect confidentiality and who have qualifications that will be stripped if they contravene that obligation.

To ensure the fairness and neutrality of the expert, a recusal system shall be adopted whereby a party can challenge the court's selection, and the party making that challenge shall have the right of immediate appeal against the court's decision of dismissal.

To facilitate the collection of materials, it shall be made possible for a court enforcement officer to accompany the expert where deemed necessary by the court.

For the sake of consistency with the court enforcement officer system, it should be specified that the court enforcement officer's role must be restricted to providing the necessary assistance to the expert, with the substantive elements of the procedures to be undertaken solely by the expert.

<Related opinions>

- The role of the court enforcement officer should be considered from the perspective of ensuring the fairness and transparency of material collection by the expert as a member of the private sector, with the officer notarizing the manner of undertaking actions that could become the premise for adverse inference.
- As experts are often unfamiliar with procedures of this nature, they should have to be accompanied by court enforcement officers.

Criminal penalties will be instituted to prevent experts undertaking the procedures from leaking secrets.



The scope of those secrets which experts are obligated to protect shall not be restricted to trade secrets as stipulated under the Unfair Competition Prevention Act (Article 2(6)), but shall rather include all secrets learned in the course of the execution of the experts' duties.

Along with these, if an expert is brought to the stand on matters related to secrets that he or she could have learned in the course of material collection, he or she may decline to be examined.

(d) *Order issuance procedure*

To ensure the smooth execution of the procedures, the court must hear the views of the defendant before issuing an order for the collection of materials.

<Related opinion>

- Even after an order has been issued, there should be an opportunity for both parties and the court to consult, with the expert also in attendance where necessary.

When the court responds to a motion by issuing an order for material collection, the defendant shall have the right of immediate appeal against that order given that the procedures impose an obligation to cooperate on the defendant, and the plaintiff shall have the same right in the case that the motion is dismissed.

While immediate appeal trials require a certain amount of time, they should be conducted as expeditiously as possible so as to facilitate the smooth operation of the system.

<Related opinion>

- If an immediate appeal is allowed at the order issuance stage, the appeal trial will take time and might interfere with the smooth operation of the system.

Where confidential information belonging to a third party is involved, the third party's interests can be taken into consideration by having the defendant contact the third party to have them create a document noting that they have confidential information that should be protected in the course of material collection and present this to court via the defendant.

(e) *Mode of material collection*

The expert shall engage in material collection only within the scope permitted by the court (subject, place, time, actions, etc.), creating a report on the results.

Specifically, the expert shall enter the defendant's premises, question the defendant, ask for documents to be presented and/or machinery to be operated, and engage in measurements, experiments and other actions as permitted by the court.

Entry into the premises of a third party other than the defendant is not envisaged.

To ensure the effectiveness of the procedures, the defendant shall be obligated to cooperate in material collection, and if the defendant refuses requests by the expert which are within the scope permitted by the court, an adverse inference shall be made at the discretion of the court.

In other countries, criminal punishment is imposed as a sanction, but given that in Japan, existing legislation provides that in the event that the defendant refuses to comply with a document submission order or order for presentation of objects for inspection, the court can make an adverse inference, adverse inference should be the measure to secure the effectiveness of the procedures, at least as a first step.

The plaintiff and/or their attorney shall not be permitted to be present for material collection in order to protect confidential information.

<Related opinions>

- At least the plaintiff's attorney should be permitted to be present so that the plaintiff's side can confirm that material collection is conducted appropriately.
- Given the risk of trade secrets leaking, the plaintiff's side should not be permitted to be present; it should be sufficient to ensure the quality of the expert and ensure that all matters are covered in preparatory meetings.

A representative of the defendant will be permitted to be present for material collection. If the defendant wishes a third party with an interest in the material collection to be present, it is envisaged that this may in some cases be permitted at the discretion of the court.

(f) *Handling of the report*

The expert shall compile and submit to the court a report on the results of material collection so that the plaintiff can use it later as evidence.

Because the report could include confidential information belonging to the defendant or to third parties that the defendant is obligated to protect, the court shall first send the report submitted by the expert to the defendant, and if there is confidential information in it, the defendant shall move within a certain time frame that all or part of the report be inked out, whereupon, as with document submission order procedures, should the court deem there to be reasonable grounds, the court shall allow all or part of the report to be inked out.

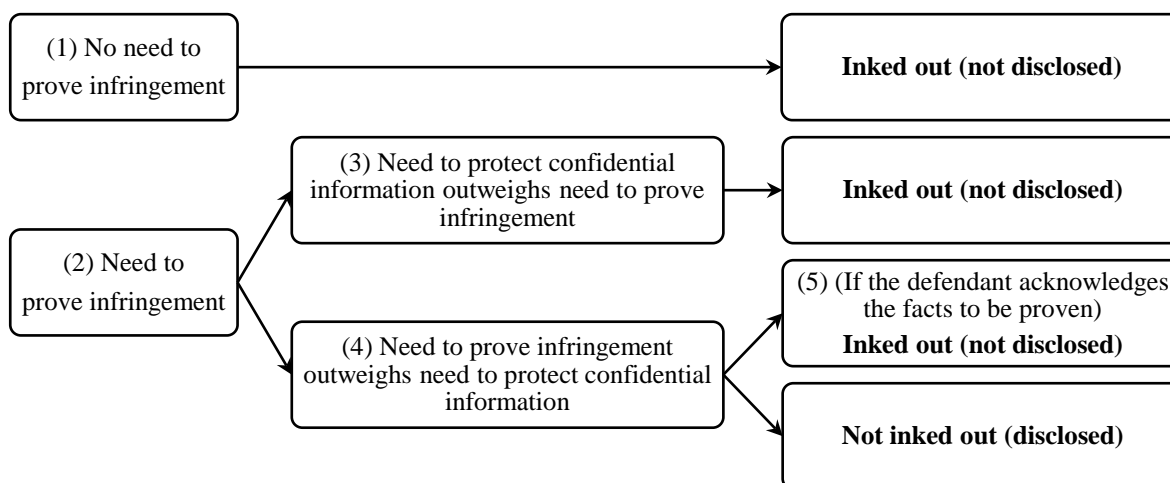
In determining whether or not there are reasonable grounds, as with document submission order procedures, the court shall compare and balance the need to prove an infringement against the need to protect confidentiality.

The process of determining whether there are reasonable grounds is shown in the flow chart below.

If the court determines there is no need to prove infringement (1), the part of the report related to confidential information will be inked out. If the court determines that the infringement does need to be proved (2), it will compare and balance the need to prove an infringement against the need to protect confidentiality. For example, if there is confidential information that is not directly necessary in proving infringement, and the infringement can be proved using other means without relying on that particular information, the need to prove infringement shall be regarded as outweighed by the need to protect confidential information (3), and the court shall order the relevant sections to be inked out. If, on the other hand, the need to prove infringement outweighs the need to protect confidential information (4), the court may decide that the confidential

information will not be inked out. Even in such a case, if the defendant still wants to avoid disclosing the confidential information at all cost, they can opt to have the confidential information inked out by acknowledging the facts to be proven (5).

Some parties feel that the scope of those secrets in relation to which the court shall make determination of reasonable grounds is not restricted to trade secrets as stipulated under the Unfair Competition Prevention Act (Article 2(6)).



In determining whether or not there are reasonable grounds, as with document submission order procedures, the court shall look at the content of the submitted report to make that determination. Disclosure procedures for the purpose of hearing the views of the plaintiff's side, the plaintiff's attorney included, shall be conducted and orders for the protection of confidentiality, issued only when the court deems it necessary.

Where the court discloses to the plaintiff's side, it shall not necessarily disclose the whole report before inking out, but shall only disclose the parts necessary in determining reasonable grounds.

<Related opinion>

- Where the court determines that there is no infringement, if none of the report is disclosed to the plaintiff's side before being inked out, the plaintiff will not be able to check whether information collection was conducted appropriately. The information should at least be disclosed to the plaintiff's attorney.

Great care needs to be taken in disclosing an un-inked report to the plaintiff personally. A mechanism should therefore be considered that requires the consent of the parties for disclosure to the plaintiff personally.

<Related opinions>

- Disclosure to the plaintiff personally should not be permitted for the purpose of hearing the plaintiff's views.
- Use of the procedures should not be permitted in the case of plaintiff self-representation.

The parties shall have the right of immediate appeal in relation to the inking out of the report. As the extent to which the report is inked out can shape the direction of the trial, both the plaintiff and the defendant shall have the right of immediate appeal.

As noted above, because confidential information might remain in a report even after the inking out procedure, pursuant to Article 92 of the Code of Civil Procedure, access to the inked-out report shall be restricted to the parties and/or their attorneys, and an order for the protection of confidentiality shall apply to those persons accessing the report.

<Related opinion>

- To restrict perusal by the plaintiff of a report that has been inked but still contains confidential information, in future, consideration should be given to introducing an “attorneys’ eyes only” mechanism by making use of an attorney mandatory for patent litigation.

For the parties to use the inked-out report as evidence in patent infringement litigation, the report must be copied and re-submitted as documentary evidence.

(g) *Costs*

Given that expert-related costs in the case of expert opinions are currently borne by the losing party, the expert-related component (travel, compensation, etc.) of the cost of the procedures shall be treated in the same way.

As with expert opinions and verification, those costs incurred by the defendant that are not necessarily included in the litigation costs (in relation to supplying samples, for example) shall be borne by the defendant, albeit with a mechanism in place whereby under the requirement of reasonableness an order cannot be issued if an unreasonable burden on the defendant is foreseen.

Given that the court will hear the views of both parties and consider reasonableness and the actions to be taken by experts, with the defendant consequently given ample opportunity to claim for the expected costs before the order for the procedures is issued, on top of which the order will also be subject to immediate appeal, it is not envisaged that a situation will emerge whereby unexpectedly high costs are incurred once the evidence collection procedures have actually begun.

An order for the procedures will not be issued if the defendant claims and proves that the motion is an abuse of the procedures and the court finds this to be so and that there is no cause for the motion. Further, if it is found that the motion is an abuse of the right to receive a trial, damages can be sought.

<Related opinions>

- While litigation costs in relation to the disposition on the collection of evidence prior to the filing of an action are borne by the plaintiff (Code of Civil Procedure, Article 132-9), could the costs of experts in relation to the procedures not be borne by the losing party?
- To prevent abuse of the procedures, the defendant should not be made to shoulder all the costs which they incur.

- If the costs are put on the plaintiff, the court will need to calculate in advance what costs will be incurred by the defendant, which could interfere with the smooth operation of the system and also make it difficult for SMEs to use.

The above system will be effective in preventing abuse of the procedures, and also has sufficient measures in place to protect confidential information, providing an appropriate balance between the interests of both the patentee as the plaintiff and the alleged infringer as the defendant.

## ***2. Review of damages calculation methods***

### *(1) Overview*

Despite the ease of infringing patent rights, there are many cases where the causal relationship between the act of infringement and the damage sustained is not clear, making the damage difficult to prove. The Patent Act therefore includes special provisions in Article 102 on negative property damage (lost profits) as a special rule as to how damage should be calculated under Article 709 of the Civil Code.

Article 102(1) presumes the damage sustained to be the amount of profit per unit of articles which the patentee would have sold if there had been no such act of infringement, while Article 102(2) presumes the amount of profits earned by the infringer to be the amount of damage sustained by the patentee, and Article 102(3) puts the amount of damage sustained as the amount that the patentee would have been entitled to receive for the working of the patented invention.

In 1959 when the current law was formulated, Article 102 had a provision presuming the amount of damage to the patentee to be the infringer's profit (former Article 102(1), current Article 102(2)) and a provision enabling damages equivalent to the licensing fee to be claimed (former Article 102(2), current Article 102(3)).

The 1998 amendments added a new Article 102(1), presuming the damage (lost profits) to be the patentee's profit per unit multiplied by the quantity of articles sold by the infringer, with the reservation that if the infringer can prove the patentee's limited capability to work that quantity or any circumstances under which the patentee would have been unable to sell that quantity, the amount of presumed damages (lost profits) shall be deducted.

Where the 1959 Article 102(2) (current Article 102(3)) referred to an amount equivalent to the sum of money that would ordinarily have been received for the working of the patented invention, the 1998 amendments removed the term "ordinarily" so that an amount equivalent to the licensing fee can be sought which is appropriate given the specific circumstances between the parties to the suit.

Many precedents have built up since the 1998 amendments, and while some parties have no particular problem with the current level of damages, others are not satisfied with the calculation process and the standards it uses.

The Patent Subcommittee has therefore revisited damages calculation methods with a view to improving them.

### *(2) Specific issues*

#### *(a) Amount equivalent to the licensing fee for the portion deducted under Article 102(1) of the Patent Act*

##### *(i) Issue*

Article 102(1) states in regard to lost profits that the patentee can claim damages on assigned articles, "the maximum of which shall be the amount attainable by the patentee ... in light of the capability of the patentee ... to work such articles," with this amount to be deducted in light of "any circumstances ... under which the patentee ... would have

been unable to sell the assigned quantity.” The relevant circumstances would generally include “the infringer’s marketing efforts,” “the existence of competing products in the market,” “outstanding characteristics of the infringing products,” and “the difference between the markets of the patentee and the infringer”.

Many different approaches have been taken in courts and academia as to whether Article 102(3) allows an amount equivalent to the licensing fee in relation to the deducted portion.

In terms of judicial precedents, up until the decision in the Chair-type Massage Machine case (IP High Court, Sept. 25, 2006), the trend was toward allowing that amount, but subsequently most judgements have converged on disallowing it (the negative view, deeming that all lost profit is evaluated under Article 102(1), and that there is no need to apply Article 102(3) on top of that in relation to the deducted portion).

Most academic theory leans either toward the affirmative view that compensation should be provided under Article 102(3) in relation to the deducted portion (in other words, the view that all lost profit is not evaluated under Article 102(1), and that Article 102(3) can be applied without exception to the deducted portion) or a compromise (the view that all lost profit is not evaluated under Article 102(1), and that Article 102(3) can be applied in some circumstances to the deducted portion).

From the standpoint of the affirmative and compromise views, if a patentee who is not working their patent claims damages under Article 102(3), they can claim damages equivalent to the licensing fee for the entire quantity of the articles assigned by the infringer, but in the case that a patentee who is working their patent claims damages under Article 102(1), if the presumed amount of damages has been deducted based on the capability of the patentee and any circumstances under which the patentee would have been unable to sell the assigned quantity, the patentee becomes unable to claim an amount equivalent to the licensing fee for that portion. This causes an imbalance between the two cases, and in particular disadvantages SMEs and venture companies with limited manufacturing and marketing capability.

From the standpoint of the negative view, the patentee can choose to seek compensation for damages under Article 102(1) or under Article 102(3), whichever amount is greater, and is consequently not disadvantaged at all.

In relation to the compromise position, some parties argue that the combined use of Article 102(3) should be allowed only in relation to the portion deducted because the patentee does not have the capability to work their patent as stipulated in the main clause of Article 102(1). Others support the combined use of Article 102(3) also for that part of the portion deducted for the reason of any circumstances under which the patentee would have been unable to sell the assigned quantity as stipulated in the proviso to Article 102(1).

Some support the former compromise position on the grounds that there have been no cases to date where the presumed damage has been deducted because of patentee capability and the court has refused to allow the combined use of Article 102(3), and that the compromise view that allows the combined use only for this portion is consistent with judicial precedents to date. Others, however, reject it because determination of the patentee capability issue and the issue of any circumstances under which the patentee

would have been unable to sell the assigned quantity is relative, making demarcation of the two difficult.

The latter compromise position has been received positively by some on the grounds that the deducted portion arises from the determination in relation to lost profits due to sales decrease that there is no causal relation between the infringement and the decrease in the sales volume of the plaintiff's product, with the court simply determining that it cannot be said that purchasers of the infringing products would have purchased the same volume of the plaintiff's products if there was no infringement. They argue that this does not change the fact that demand for the working by anyone else of the patented invention was lost as a result, and therefore an objective licensing fee in relation to that volume should be allowed as damages. On the other hand, those against this position note that "any circumstances" in the proviso to Article 102(1) includes a range of situations which would in practice be invoked together, so it would be difficult to clarify in which circumstances the combined use of Article 102(3) should be permitted.

Given the above views, the Patent Subcommittee looked at which of the positive, compromise, and negative positions should be adopted, and whether, in the case that the compromise position was chosen, an amount equivalent to the licensing fee should be allowed for the portion deducted based on the proviso to Article 102(1) in addition to the main clause of the same.

(ii) *Examination*

An amount equivalent to the licensing fee should be allowed for the portion deducted on the grounds of patentee capability as stipulated in the main clause of Article 102(1). For example, if the patent infringer sold 100 infringing units, but patentee capability meant that the patentee was only able to sell 30 units, under Article 102(1), the amount recognized as lost profit would be the amount derived by multiplying the amount of profit per unit by the 30 units that were within the patentee's capability, leading to the unsatisfactory situation of the profit from the other 70 units remaining in the infringer's hands.

<Related opinions>

- As there are no cases to date in which the court has clearly refused to combine Article 102(3) with Article 102(1) in relation to the portion deducted on the grounds of patentee capability, this approach would not contradict judgements to date.

Various opinions were expressed both for and against allowing an amount equivalent to the licensing fee for the portion deducted on the grounds of "any circumstances ... under which the patentee ... would have been unable to sell the assigned quantity" as in the proviso to Article 102(1), but no one put forward the negative view that an amount equivalent to the licensing fee should not be allowed for the portion deducted based on either the main clause or the proviso. It will therefore be clarified in the legislation that there are potentially circumstances in which an amount equivalent to the licensing fee could be allowed for the portion deducted due to patentee capability noted in the main clause and the portion deducted due to "any circumstances ... under which the patentee



... would have been unable to sell the assigned quantity.” Specific cases in which an amount equivalent to the licensing fee is allowed should be determined by the court.

<Related opinions>

- There is no room for allowing an amount equivalent to the licensing fee for the deducted portion in the proviso to Article 102(1).
- Given that, if there was no infringement, the patentee could potentially sell products using the patented invention but also license out the patent to other parties, an amount equivalent to the licensing fee should be allowed not just in cases of deduction for reason of patentee capability but also for the portion deducted for reason of the plaintiff’s marketing efforts and capability.
- The existing proviso to Article 102(1) only allows deduction of the number of articles sold, but the circumstances for deduction include some situations in which the contribution of the patented invention is acknowledged and others in which it is not. An amount equivalent to the licensing fee should be allowed only for those situations in which the contribution of the patented invention is acknowledged.
- It should be explicitly stipulated in the Act that an amount equivalent to the licensing fee will be allowed only for the portion for which the contribution of the patented invention is acknowledged. Cases in which the contribution of the patented invention would be acknowledged include those where the deduction was due to sales of rival products and a rival company was the licensee, and cases where the deduction was due to the difference in markets.
- As for the proposal of creating separate paragraphs in the text of Article 102(1) for deductions under the proviso and deductions of profit per unit under the main clause, and dealing with deductions based on the degree of contribution of the patented invention under the latter, even if it was conceptually possible to divide the two, in practice, there are many cases in which it would be difficult to draw a clear distinction between “any circumstances ... under which the patentee ... would have been unable to sell the assigned quantity” and the impact of the contribution of the patented invention as asserted by the parties, potentially causing confusion among practitioners.

Similar amendments will be made to other industrial property rights laws (namely, the Utility Model Act, the Design Act, and the Trademark Act; same in Section III.2.(2)(b) below).

<Related opinions>

- It is difficult to envision cases in which a trademark is licensed to an infringer, so it would be strange to allow the combination of Articles 102(1) and 102(3).
- The current considerations are not about future licenses but rather the method of calculating compensation for past damage, so there should be no difference between the Patent Act and other industrial property rights laws in terms of making the infringer pay compensation not only for the profit which might have been derived where the rights holder had sold the products but also the amount equivalent to the licensing fee.

There is no provision in Article 102(2) for deduction based on patentee capability as in the main clause of Article 102(1) or on “any circumstances ... under which the patentee ... would have been unable to sell the assigned quantity” as in the proviso to the clause, but there are many cases in which the court’s interpretation leads to deduction in the same way as under Article 102(1).

Accordingly, even without specific amendment to Article 102(2), if an amendment is introduced to allow an amount equivalent to the licensing fee in relation to the deducted portion under Article 102(1), it will be interpreted that similar treatment is also allowed for the deducted portion under Article 102(2).

(b) *Clarification of elements of consideration in Article 102(3) of the Patent Act*

It has been indicated in courts and academia to date that there are various circumstances existing between the parties to a case that need to be taken into consideration in calculating the amount equivalent to the licensing fee as stipulated in Article 102(3).

Specific elements of consideration include past cases of licensing, going rates in the industry, the content of the patented invention, the degree of contribution of the patented invention, the sales price, volume, and sales period of the infringing products, and the status of the parties in the market. These elements can either increase or decrease the amount equivalent to the licensing fee according to the particular case.

Unlike the above, the following elements of consideration would typically prompt only an increase.

The first is the finding that a valid patent has been infringed. Generally, the rate determined by the patentee’s past contracts and the general going rate on the market is set as the licensing fee before it has been determined in court whether the patent is valid or whether there has been an infringement (calculated *ex ante*). Where it is determined through a patent rights infringement suit that a valid patent was infringed, however, a higher rate than the original licensing fee should be allowed as the amount equivalent to the licensing fee.

Second is the loss of opportunity for the patentee to make a licensing decision. Where a patent right infringement is found, it means that the infringer has implemented that patent right without the permission of the patentee, depriving the patentee of the opportunity to decide whether or not to approve the license. This circumstance too should be considered as a factor potentially pushing up the amount equivalent to the licensing fee.

Third is the fact that the infringer has not taken on contractual constraints. Usually, when a licensing agreement is concluded, the licensee shoulders various constraints, such as payment of a guaranteed minimum, restriction of the grounds for contract termination, restriction of refund demands in the event of a patent becoming invalid, and payment periods. The fact that the infringer has implemented the patented invention without such

constraints should be considered as a factor potentially pushing up the amount equivalent to the licensing fee.

In drafting the amendments, rather than stipulating comprehensively all the envisaged factors, it would be preferable to make a general note that the court may, in the course of determining the amount equivalent to the licensing fee, consider the amount that the patentee might have derived had agreement been reached with the infringer as the price for implementing the patent—in other words, for example, the amount that would have been derived through negotiation between rational parties—opening the way for various elements of consideration to be read into the language.

<Related opinion>

- If those elements of consideration are not explicitly stipulated in the text, there is no guarantee that they will be considered.

It is worth bearing in mind that in Germany, reputable judges have backed the idea of calculating the amount equivalent to the licensing fee by presuming an amount twice as much as the licensing fee under an ordinary licensing agreement. It should be noted that in Germany, punitive elements are not accepted as grounds for allowing a higher amount.

In precedents and in practice, the going market rate is regarded as an important element of consideration in calculating the amount equivalent to the licensing fee, but *Royalty Rates Vol. 5*, issued by the Intellectual Property Research Center (Japan Institute for Promoting Invention and Innovation), which serves as one reference point, is primarily based on licensing fees in contracts for the introduction of foreign technology, and the data forming the basis for those is old, so it does not necessarily reflect the actual current status of ordinary licensing agreements. One issue will be how to compile the latest data to provide a reference for licensing fees which is based on the actual situation in recent years.

(c) *Compensation beyond actual damages*

(i) *Punitive damages*

Moves are afoot even in those East Asian countries and regions that have adopted a civil law approach (China, ROK and Taiwan, etc.) to introduce a punitive damages system like that of the United States as a means of increasing the amount of damages paid.

If Japan were to introduce such a system, however, it is highly likely that overseas rulings requiring expensive punitive damages would also have to be executed in Japan, and this point needs to be carefully considered. In addition, if punitive damages were limited to malicious cases, doubts have been expressed as to whether it would be possible to determine malice in Japan in the absence of a system equivalent to US discovery.

There was some feeling in the Patent Subcommittee and also among the proposals submitted that punitive damages are necessary from the perspective of deterring patent infringement, and that cases that can only be deemed malicious are in fact seen even in Japan, whereby a party infringes a patent comprising the heart of a patentee's business

while completely ignoring warnings from the patentee. Many, however, were opposed to punitive damages on the grounds that they do not fit with Japan's common law system, arguing that discussion needs to be deepened to ensure sufficient consideration of how to ascertain the requirements and effects of such damages so as to eliminate the possibility of a surge in the abusive exercise of patent rights.

Discussion should therefore continue to be deepened with consideration to the respective merits and demerits of introducing punitive damages, while also watching trends overseas in terms of both the introduction and operation of this system.

(ii) *Disgorgement of profits*

Introducing disgorgement of profits as a remedy would prevent profit from remaining in the hands of infringers and strengthen infringement deterrence functions, and as such would serve as an effective means of preventing an "infringer-wins" situation. In particular, it is hard to legitimize profit remaining in the hands of infringers. Considerable support for introducing this system was expressed by both Patent Subcommittee members and proposals particularly from SMEs and startup companies. It was also suggested that it would be worth looking into various possible levels of disgorgement.

There was some feeling, however, that further consideration was needed as to the appropriate legal framework for disgorgement of profits (tort, unjust enrichment, or *negotiorum gestio* (quasi-management without mandate), for example). Others also wondered why disgorgement should be permitted only under the Patent Act, and noted that preventing an infringer from profiting from patent infringement does not justify the patentee making a profit; that it would be difficult to calculate profit from infringements involving multiple patent rights; and that evidence collection procedures first need to be enhanced so as to develop a system for the calculation of appropriate damages within the scope of compensation for actual damages.

Disgorgement consequently requires further discussion based on the above views.

### ***3. Consideration of additional options for dispute settlement***

#### *(1) Overview*

While some are satisfied with the current court procedures for patent infringement litigation and the way they are operated, others felt that they were difficult for users to understand.

The Patent Subcommittee consequently examined patent infringement litigation with a view to preparing options for dispute settlement geared to the needs of users of court procedures for patent infringement litigation and presenting these to users in an easily understandable form.

#### *(2) Consideration of a two-stage litigation system*

The practice for many years in litigation claiming damages for patent infringements has been first to examine whether there has been an infringement, and where the court is convinced of an infringement, to proceed with an examination of the existence and scope of damages—in other words, a two-stage examination addressing infringement, then damages.

Generally in patent infringement litigation, the plaintiff files a suit seeking both an injunction (Patent Act, Article 100) and damages compensation (Civil Code, Article 709) together, and the court examines the issue of infringement common to both claims. Where the court is convinced of an infringement, it examines the issue of damages. Once that has been completed, a judgment is handed down on both claims at the same time.

The view was expressed by users of court procedures for patent infringement litigation that while, they ultimately want to receive damages in addition to the injunction, their top priority is an early injunction to prevent further infringement. They asked if it would therefore be possible to create a system whereby a solution in relation to specific damages and future licensing fees could be sought through negotiations between the parties while avoiding the completion of extinctive prescription in relation to damages. It was suggested that in some cases, providing this option could lead to early dispute settlement and keep down litigation costs.<sup>5</sup>

In patent infringement litigation in Germany and the UK, litigation to confirm only the existence of liability for damages is launched together with an injunction suit. Once the court has ruled in favor of the plaintiff, specific damages are left to negotiations between the parties, with a damages suit only filed when those negotiations break down (in other words, a two-stage litigation system). In most cases, a settlement is reached through negotiation.

The view was expressed that, as one type of patent infringement litigation, an injunction litigation could be filed together with a suit to confirm that the infringer should be obligated

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<sup>5</sup> In practice, there are also cases where an injunction suit is filed first to achieve an early injunction, with the damages suit filed later, but the extinctive prescription of damages (three years) arising out of an unlawful act applies in such cases.

to compensate for damages (below, “confirmation suit”). Specifically, the following system was proposed.

- Only when the patentee launches an injunction suit against a party who has willfully or negligently infringed the patentee’s patent rights can the patentee bring a suit to confirm that the infringer should take on the obligation to compensate the patentee for the damage caused by that infringement. In such suits, the court will examine and rule solely on infringement. Extinctive prescription of the right to claim damages in relation to that infringement will be suspended for the duration of the litigation and renewed once a final ruling is issued.
- If the negotiations between the parties following the rulings on the injunction and the confirmation suit break down, a separate suit will have to be filed to claim damages, but under *res judicata*, the parties in that second trial will not be able to make claims that contradict the content of the ruling from the first trial, with the court examining and ruling solely on the issue of damages.

It was suggested that such a mechanism would offer more options for dispute resolution, with the parties able to choose to use alternative dispute resolution procedures such as arbitration and mediation to set the amount of damages, etc. Wide public disclosure of the court rulings on patent infringements should also boost predictability for users of court procedures for patent infringement litigation.

Discussion at the Patent Subcommittee on this mechanism generated the following comments.

(a) *Early realization of injunctions*

In patent infringement litigation, there is a strong need for an immediate injunction, and there was some feeling that introducing a mechanism such as the above would allow an injunction just from examination of the infringement without having to go into damages, while a mechanism that enables a grace period for completion and renewal of extinctive prescription in relation to the right to seek damages would be an effective dispute settlement option.

Others responded that:

- First-stage litigation sometimes requires examination not only of the infringement but also of whether damage has been incurred, as well as the causal relationship, so examining the infringement alone would not be sufficient, while if a declaration of provisional execution is not attached to the injunction ruling, appeal or even final appeal procedures may be necessary to achieve a final injunction, so a mechanism such as the above would not have the desired result of an early injunction.
- Even where an appeal is made, a final ruling on the right to seek an injunction would be decided at the first and appeal hearings without examining all the damages, so it should still be possible to achieve an early injunction.

It was further suggested that an early injunction would also be possible by using a provisional disposition on the injunction (Civil Provisional Remedies Act, Article 32(2)), so it would not be necessary to allow a new type of suit.

In response to this, however, it was noted that because provisional disposition on an injunction is considered provisional dispute resolution, security is generally required (Civil Provisional Remedies Act, Article 14), so this new type of suit would need to be allowed in order to gain an injunction in the form of a final ruling.

(b) *Rights under substantive law*

Some argued that introducing a mechanism like the above would mean that negotiations between the parties on the amount of damages and licensing fees would be conducted with an injunction in place, which should in most cases result in an early agreement.

The following comments were made in response to this:

- Germany's two-stage litigation mechanism functions as a dispute settlement mechanism because the patentee has the right under substantive law to request the infringer to provide information. It is difficult in Japan to have that right granted, so this new type of suit would be unlikely to function.
- The right to seek the provision of information under German substantive law is based on the principle of good faith (German Civil Code, Section 242). There are precedents in Japan too where the court has recognized the obligation of a party who has entered into a certain social relationship to provide information in good faith,<sup>6</sup> so it would not be difficult for Japan to adopt the same interpretation.
- Given the actual state of settlement negotiations in relation to litigation, it is doubtful whether talks would proceed smoothly solely through negotiations between the parties without the involvement of the court and the whole period until dispute settlement is likely to drag out.

(c) *Reasonableness of negotiations between the parties*

Negotiations between the parties in relation to the amount of damages and licensing fees, etc., that are conducted under an injunction would, it was suggested, put the party subjected to the injunction ruling at a disadvantage to the patentee in the negotiations, making it difficult to produce a mutually acceptable settlement.

Others felt that if the alleged infringer had accepted the final ruling on an injunction despite the opportunity to appeal, it was inevitable that the patentee would have the stronger position in negotiations on the calculation of damages.

(d) *Efficiency of damages examinations*

The view was expressed that in damages examinations, technical matters in relation to infringing products need to be considered in the calculation of damages and can overlap with infringement examinations. The new type of suit would mean that even at the second stage trial, the parties would have to put forward proof of their claims on technical matters again, with the judge again having to get to grips with the technology, which could detract from the efficiency of court examinations.

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<sup>6</sup> Supreme Court November 27, 2012, 2011 (Ju) 1400

In response to this view, it was noted that when a final ruling has been issued on validity and infringement, the judge in second-stage litigation should have sufficient capacity to examine damages based on the record of the first-stage trial.

Given the above, discussion should be deepened on a system suited to arrangements under Japan's Code of Civil Procedure.



#### **4. Consideration of reduction of litigation cost burden**

##### *(1) Overview*

According to some SMEs, legal fees and other litigation costs are so high that they have to think twice before filing a suit even when their rights are infringed. This could detract significantly from their motivation to acquire and utilize IP rights for painstakingly developed technologies, impacting negatively on SME innovation.

Consideration therefore needs to be given to an IP dispute settlement system that is easy for SMEs to use.

##### *(2) Specific issues*

###### *(a) Allocation of the burden of legal fees, etc.*

One way of easing the cost burden that litigation imposes on SMEs would be to have the loser shoulder costs such as legal fees, as is the practice in the United Kingdom and Germany.

The principle in the United States is that each party shoulders their own costs, but under the Patent Act, in exceptional cases, the loser can at the court's discretion be ordered to pay.

Under a loser-pays system, where the patentee was successful in their litigation, they would face a much lighter burden in terms of costs, improving the cost-benefit effect for successful patentees and also reducing the number of pointless suits.

If the patentee lost, however, they would have to shoulder some of the defendant's costs, which could conversely discourage patentees from filing suit in some cases.

In Japanese damages litigation, the court often designates around 10 percent of the admitted amount as legal fees, which often results in the fees being more expensive than the damages awarded, so there was some feeling that as a practical measure requiring the loser to shoulder the costs, the amount of damages which the court could allow for legal costs could be made more flexible.

Given the above, discussion should continue to be deepened on the allocation of legal fees and other costs in IP litigation.

###### *(b) Other measures*

A system could also be created to assist SMEs with litigation costs. Specifically, it was suggested that consideration should be given to a guarantee system and/or subsidies to help SMEs pay litigation fees. Discussion should be continued on support measures for SMEs bearing this view in mind.