



## 2019 Revisions to the Patent and Design Laws, etc.

- Expected to be enforced within 2019 -

### Part I: Revisions relating to infringement lawsuits

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#### Abstract:

A new bill to revise the Patent Law, the Design Law, etc., was adopted by the Cabinet on March 1, 2019, and is expected to be enforced by the end of 2019. The revisions planned to be introduced by the bill include:

- (i) Revisions for improving the litigation system for IP right infringement; and
- (ii) Revisions for expanding and improving the design protection system.

This article summarizes the revisions relating to item (i): improvement in the litigation system for IP infringement.

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### 1. Summary of the IP infringement litigation in Japan

A right holder or a sole-and-exclusive licensee of a patent, registered utility model, registered design, or registered trademark right (hereinafter collectively referred to as “registered IP right”) which has been infringed by an unauthorized third party can file a lawsuit seeking remedies for the infringement with the court. One remedy is injunctive relief, which restrains the defendant’s future act of infringing the registered right (Article 100(1) of the Patent Law; Article 27(1) of the Utility Model Law; Article 37(1) of the Design Law; and Article 36(1) of the Trademark Law). Another remedy is compensation for damage, which allows the patentee to recover monetary compensation for the damage caused by the defendant’s previous act of intentionally or negligently infringing the registered right (Article 709 of the Civil Law).

Likewise, a party whose business interest has been injured or is likely to be injured by a third party via unfair competition can file a lawsuit seeking remedies such as injunctive relief and compensation for damage (Articles 3(1) and 4, respectively, of the Unfair Competition Prevention Law) (hereinafter, registered IP rights and rights based on the Unfair Competition Prevention Law are collectively referred to as “IP rights”).

However, since an IP right is an intangible property right, it is easy for a third party to infringe an IP right, while it is difficult for an IP right holder to discover and prove infringement of its IP right. In addition, for the holder of an infringed IP right who seeks compensation for damage, it is difficult to establish the causal relationship between the infringement and the damage incurred by the IP right holder, as well as the amount of damage resulting from the infringement.

In order to alleviate such difficulties, the Patent, Utility Model, Design, Trademark, and Unfair Competition Prevention Laws (hereinafter collectively referred to as “the IP Laws”) prescribe special treatments for lawsuits relating to IP right infringement, as summarized below<sup>1</sup>.

### Special provisions relating to production of evidence

**\* Presumption of the manufacture process:**

In the case of a patented invention relating to a process of manufacturing a product which was publicly unknown in Japan prior to the filing date, any identical product shall be presumed to have been manufactured by that process.

(PL: Art.104; no provision in UML, DL, TML, and UCPL)

**\* Obligation to clarify specific constitution:**

When denying the specific constitution of an allegedly infringing product or process as asserted by the IP right holder, the alleged infringer shall clarify the specific constitution of its product or process in a concrete manner.

(PL: Art.104-2; UML: Art.30; DL: 41; TML: Art.39; UCPL: Art.6)

**\* Production of documents, etc.:**

(1) The court may, upon the request of a party, issue an order for another party to produce documents necessary for proving alleged infringement or for assessing the damages caused by the infringement, unless the owner of the documents has a legitimate reason for refusing to produce them.

(2) Before deciding on whether to issue the order stated in above item (1), when deemed necessary, the court may invite the owner of the documents to present them, and disclose them to a party, agent, etc., under confidentiality to ask for its opinions thereon (so-called “in-camera” proceeding).

(PL: Art.105; UML: Art.30; DL: 41; TML: Art.39; UCPL: Art.7)

**\* Secrecy Order:**

The court may, upon the request of a party who has a trade secret, issue an order for a party, agent, etc., not to use the trade secret for the purpose other than the purpose of prosecuting the litigation or not to disclose the trade secret to other persons than those ordered.

(PL: Art.105-4; UML: Art.30; DL: 41; TML: Art.39; UCPL: Art.10)

<sup>1</sup> The names of the Laws are abbreviated as follows: PL: Patent Law; UML: Utility Model Law; DL: Design Law; TL: Trademark Law; UCPL: Unfair Competition Prevention Law.

## Special provisions relating to compensation for damage

### \* **Presumption of negligence:**

A person who has infringed an IP right of another person shall be presumed to have been negligent as far as the act of infringement is concerned.

(PL: Art.103; DL: 40; TML: Art.39; no provision in UML and UCPL)

### \* **Presumption of amount of damages:**

(1) [IP right holder's lost profit] The sum of money calculated by multiplying the number of products sold by the alleged infringer by the profit per unit of the products which the IP right holder could have sold in the absence of the infringement (IP right holder's lost profit) may be estimated as the amount of damages, within a limit not exceeding an amount attainable, depending on the working capability of the IP right holder. If there is any circumstance that prevents the IP right holder from selling a part or the whole of the number of products sold by the alleged infringer, a sum equivalent to the number of products which could not have been sold by the IP right holder shall be deducted.

(2) [Alleged infringer's profit] The profits gained by the alleged infringer through the infringement (alleged infringer's profit) shall be presumed to be the amount of damages.

(3) [Reasonable royalty] An IP right holder may claim the amount of the royalty which it would be entitled to receive for its IP right as the amount of damages.

(PL: Art.102; UML: Art.29; DL: 39; TML: Art.38; UCPL: Art.5)

### \* **Award of reasonable damages:**

When it is extremely difficult for an IP right holder to prove facts necessary for proving damage, the court may award a reasonable amount of damages, based on the entire purport of oral arguments and the examination result of evidence.

(PL: Art.104; UML: Art.30; DL: 41; TML: Art.39; UCPL: Art.9)

Such special provisions have been introduced, revised, and expanded a number of times over recent years, and another revision is scheduled to be enforced on July 1, 2019, which will expand and improve the "in-camera" proceeding.<sup>2</sup> Nevertheless, there are still strong calls for more drastic reform of the litigation system of the IP infringement, mainly in order for an IP right holder to more easily collect evidence<sup>3</sup>, especially for proving alleged infringement of a patent relating to a process invention and a product-by-process invention, and also to obtain a sufficient amount of compensation for damage.

<sup>2</sup> This revision will amend the IP Laws such that (i) the in-camera system can be allowed not only for deciding where the owner of the documents has an adequate reason for refusing to disclose the documents, but also for deciding whether the documents are necessary for proving alleged infringement or assessing the amount of damage caused by the infringement, and that (ii) the court can disclose the documents not only to the parties and their agents, etc., but also to expert advisers with the consent of both parties. For details, please see the Seiwa IP News dated September 3, 2018 (<http://www.seiwapat.jp/en/IP/pdf/en00045.pdf>).

<sup>3</sup> While there are strong means to produce evidence relating to patent infringement in major foreign countries, such as US (discovery), UK (disclosure), Germany (inspektion) and France (saisie-contrefaçon), there is no such specific means to produce evidence in Japan.

## 2. Establishment of an inspection system as a means to collect evidence

The Patent Law will be revised to establish a new system (**inspection system**), which allows for a party involved in patent infringement litigation to collect evidence necessary for proving a fact relating to the litigation. According to this system, the court may, upon the request of such a party, issue an order for a designated inspector to inspect a facility of another party and collect necessary evidence, and submit a written report on the inspection to the court (**Articles 105-2 to 105-10 of the Patent Law: NEW**).

*\* This revision relating to the inspection system will only apply to the Patent Law. The inspection system will not be available for litigation based on other IP rights.*

### (1) Request of inspection

- Inspection is allowable in a patent infringement lawsuit filed by a patentee or a sole-and-exclusive licensee (i.e., not allowable before a lawsuit is filed).
- Inspection is allowable on the demand of a party involved in the litigation (usually expected to be the plaintiff: hereinafter “the plaintiff”).
- inspection is allowable only when:
  - (i) it is deemed necessary for the plaintiff to produce evidence from documents, devices, or other articles (hereinafter “documents, etc.”) possessed by another party involved in the litigation (typically expected to be the alleged infringer/defendant, but may also be any other party associated with the alleged infringer/defendant: hereinafter “the target party”) in order to prove a fact relating to the litigation; and
  - (ii) there is a probable cause to suspect that the defendant infringed a patent, but the plaintiff is not expected to produce the evidence by any means.
- Inspection is requested by submitting a written request stating, e.g.:
  - (i) the reason why there is a probable cause to suspect that the defendant infringed a patent;
  - (ii) matters for identifying the documents, etc., subject of inspection and where the documents, etc., can be found;
  - (iii) the fact to be proved on the basis of the documents, etc.; and
  - (iv) the reason why the plaintiff cannot produce the evidence by any means.

### (2) Order of inspection

- Upon receiving the request from either party, the court may designate an inspector and order him/her to carry out inspection.
- Before issuing the order, the court shall ask for the opinion of the defendant/target party.
- The court cannot issue an order of inspection if ordering inspection is found to be inappropriate.

- The court may revoke an issued order of inspection if continuing inspection is found to be inappropriate.
- Either party can file an immediate appeal against a decision by the court concerning an order of inspection.

### (3) Inspection proceeding

- When inspection is ordered by the court, the designated inspector carries out inspection by:
  - (i) entering the target party's factory, office, or other facility where the documents, etc., can be found;
  - (ii) interrogating the target party and/or demanding submission of the documents, etc.;
  - (iii) activating, measuring, experimenting, etc., the relevant device, etc.; and/or
  - (iv) carrying out any other measures authorized by the court.
- The target party shall cooperate with the inspector as long as necessary for the inspection. Otherwise, the court may rule the plaintiff's allegations to be true.

### (4) Inspection report

- The inspector shall prepare a written report on the results of the inspection (inspection report) and submit it to the court.
- The target party may petition the court not to disclose a part or all of the inspection report to the plaintiff. If the court finds that there is a probable cause for the target party's petition, the court may decide not to disclose a part or all of the inspection report to the plaintiff.
- Either party can file an immediate appeal against a decision by the court concerning the disclosure of the inspection report.

### \* Comments

- The inspection system is expected to provide the patentee with a strong means to collect evidence, especially for proving alleged infringement of a process invention and a product-by-process invention.
- However, there are opposing concerns about this inspection system: Some are concerned that if this system is abused, alleged infringers may suffer unforeseeable damage, while others are concerned that this system is insufficient to protect patentees, and propose introducing a stronger system, e.g., which allows such an inspection even before an infringement lawsuit is filed with the court.
- The details of the inspection system are not clear<sup>4</sup>. We should wait and see how the court will implement and operates this new system.

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<sup>4</sup> For example, it is not clear as to whether inspection can be allowed during a litigation seeking for preliminary injunction.

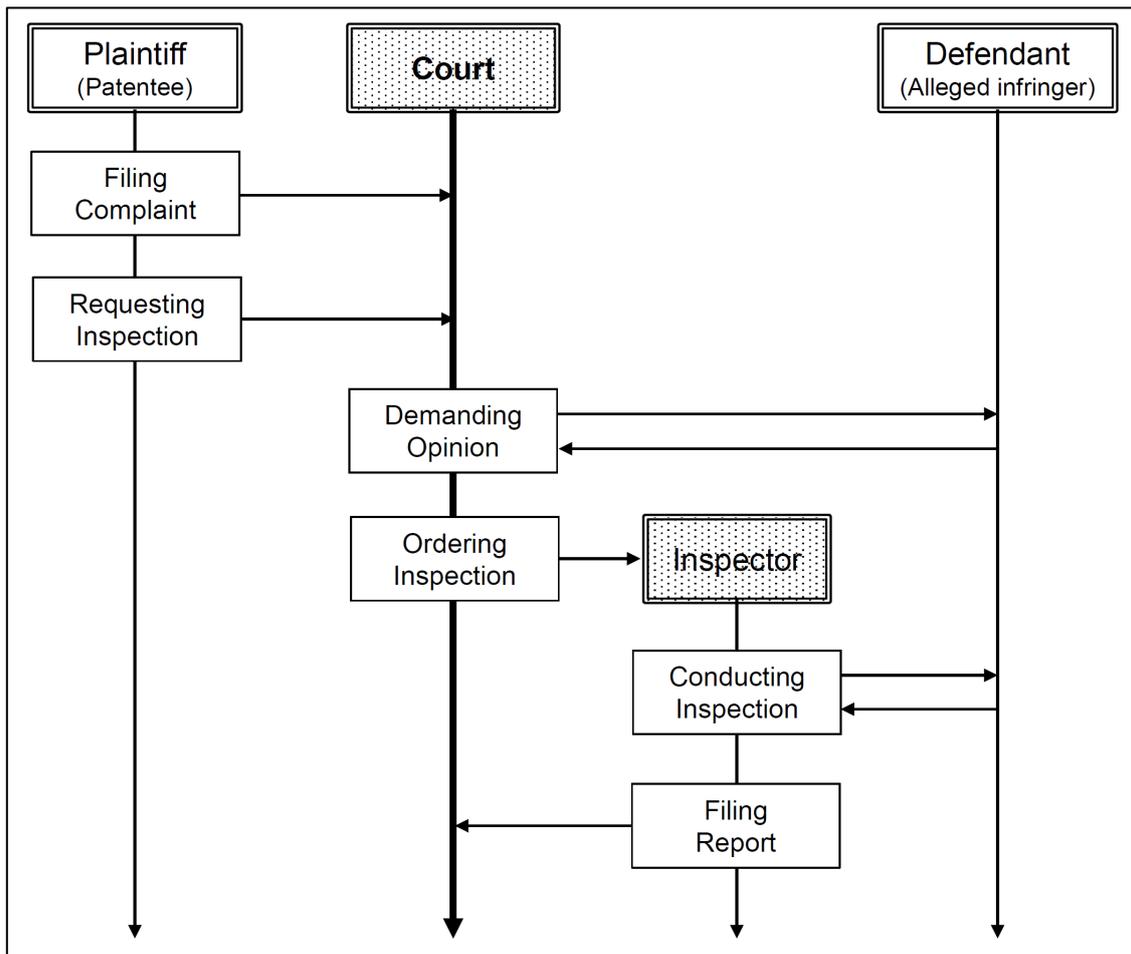


Fig. 1: Flowchart of the newly-introduced inspection proceeding  
 (in the case where the plaintiff is the party requesting inspection,  
 and the defendant is the party being the target of inspection)

### 3. Improvement of the method for calculating the amount of damages

(1) The sum of the IP right holder's lost profit and the reasonable royalty can be estimated as the amount of damages (Article 102, paragraph 1 of the Patent Law, etc.: revised)

- According to the current IP Laws, the IP right holder's lost profit calculated based on the number of products sold by the alleged infringer may be estimated as the amount of damages. However, if the working capability of the IP right holder is limited, or if there is any other circumstance that prevents the IP right holder from selling a part or the whole of the number of products sold by the alleged infringer, the amount beyond such limitation shall be deducted from the amount of damages (Article 102, paragraph 1 of the Patent Law, etc.).
- Therefore, when the IP right holder is a small- or medium-sized enterprise or a start-up company whose manufacture/marketing capability is limited, the amount of damages estimated based on the IP right holder's lost profit tends to be significantly low.

- Nevertheless, it is not allowed for the IP right holder to demand the amount of damages based on the IP right holder's lost profit (Article 102, paragraph 1 of the Patent Law) in combination with, e.g., the amount of damages based on the reasonable royalty (Article 102, paragraph 3 of the Patent Law).
- According to the revised IP Laws, when a part of the amount of damages estimated based on the IP right holder's lost profit is deducted due to the limitation of the IP right holder's manufacture/marketing capability, then the IP right holder will be able to also demand the amount of damages based on the reasonable royalty in combination, thereby supplementing the deduction (see Figure 2 below).
- This revision is expected to enable a small- or medium-sized enterprise or a start-up company, whose manufacture/marketing capability is limited, to obtain sufficient compensation for the damage caused by the infringement of its IP right.

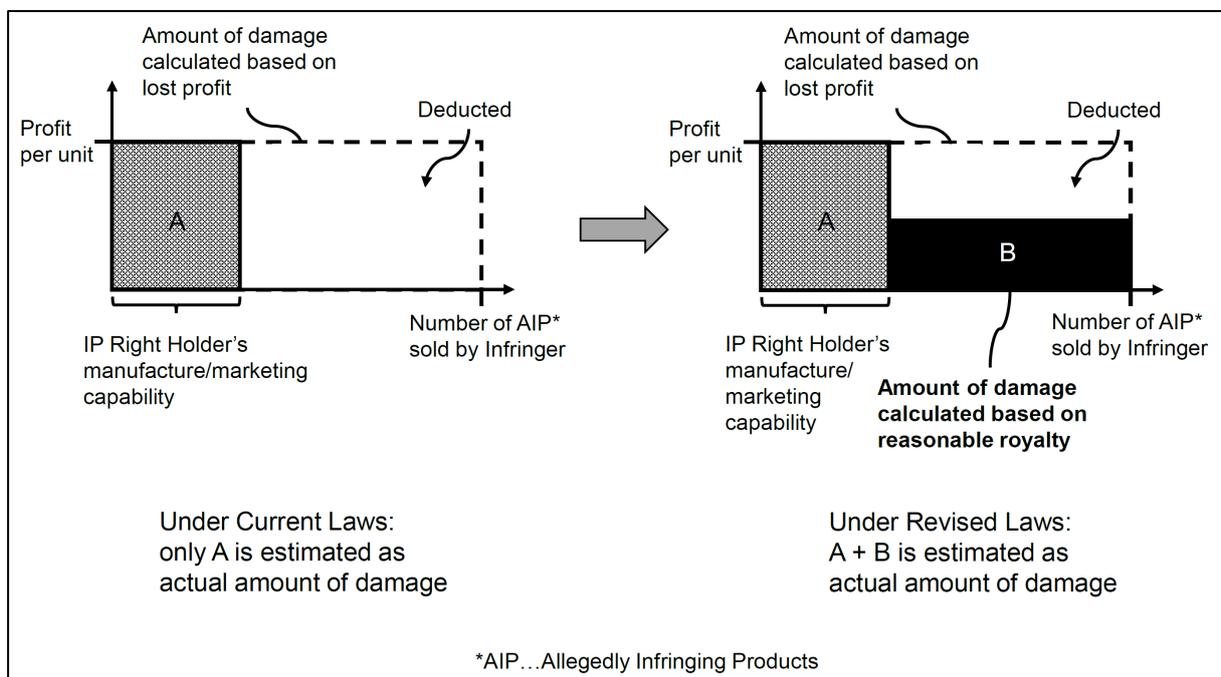


Figure 2: New estimation method of the amount of damages based on the sum of the IP right holder's lost profit and the reasonable royalty

(2) Fact of infringement can be considered when calculating the amount of damages based on the reasonable royalty (Article 102, paragraph 4 of the Patent Law: New)

- According to the current IP Laws, an IP right holder may claim the amount of the reasonable royalty which it would be entitled to receive for its IP right as the amount of damages (Article 102, paragraph 3 of the Patent Law).
- However, the fact that the IP right was infringed is not considered in calculating the amount of damages based on the royalty, which reduces the amount of damages significantly. In general, the amount of an actual royalty which an IP right holder receives for its IP right changes, depending on the stage of negotiation, usually being higher at the later stage of negotiation.

- Nevertheless, the amount of damages tends to be calculated based on the average royalty at the early stage of negotiation, not the higher royalty at the later stage of negotiation. Therefore, it is sometimes more advantageous for a competitor of an IP right holder to intentionally infringe the IP right and, if infringement is found by the court, to then pay the low amount of damages calculated based on the average royalty, rather than to negotiate with the IP holder for a license from the beginning.
- According to the revised IP Laws, the fact that the IP right was infringed will be considered in calculating the amount of damages based on the royalty (Article 102, paragraph 4 of the Patent Law, etc.: New). This will allow for the court to calculate the amount of damages based on the higher royalty at the later stage of negotiation, not the average royalty at the early stage of negotiation.
- This revision is expected to increase the amount of damages based on the reasonable royalty, and thereby act as a deterrent to intentional infringement.

*\* These revisions relating to the amount of damages will be made to the Patent Law (Article 102), the Utility Model Law (Article 29), the Design Law (Article 39), and the Trademark Law (Article 38).*

#### **4. Dates of promulgation/enforcement**

The revised laws will be enforced within one year from the date of promulgation, which date is unknown as of now. However, it is likely that the revised laws will be promulgated and enforced by the end of 2019 at the latest.

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