INTELLECTUAL PROPERTY - JAPAN

Patent Act revisions: new evidence collection system and damages calculation methodology

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The most recent amendments to the Patent Act, which were passed and enacted on 17 May 2019, have modified Japan's patent litigation system to make it more favourable to patentees (especially small and medium-sized enterprises (SMEs) and start-ups) in terms of evidence collection and the calculation of damages.

Background

Japan's patent litigation system has often been said to offer insufficient protection to patentees. This is because although the burden of proof for patent infringement is quite high, Japan has not adopted a broad US-style discovery system. Therefore, plaintiffs (ie, patentees) have to play a leading role in collecting and presenting to the courts evidence on which to base claims of infringement and damages. As a result, it can be difficult for patentees to bring their cases, and the damages amounts awarded by the Japanese courts tend to be smaller compared with those of courts in the United States and elsewhere. Although criminal liability is provided for in the Patent Act, the police rarely take on these cases due to the complexity of the matters. Thus, patentees cannot rely on evidence collected by the police. In addition, although patentees can claim compensation for damages and injunctions, the Japanese courts – unlike those in the United States – cannot award punitive damages. As such, any compensation is usually insufficient to cover the patentee's damages and act as a deterrent against patent infringement.

Further, as open innovation has progressed, there has been an increasing need to create a patent litigation system which enables SMEs and start-ups to take advantage of their groundbreaking technology.

In this context, the 2019 revisions to the Patent Act aim to improve the effectiveness of the patent litigation system and become more patentee friendly by introducing:

- a new evidence collection system; and
- a new methodology for calculating damages.

Evidence collection system

Onsite inspections by experts

Under the new onsite inspection process, on a patent owner's request and if certain prescribed requirements are met, the courts may order an independent third-party expert to:

- conduct onsite inspections to collect evidence of alleged patent infringement at the site of the alleged infringer (eg, its manufacturing site); and
- submit a report on the onsite inspection to the courts.

This system is expected to be used in patent litigation in technological fields in which conventional procedures for collecting evidence are insufficient to obtain evidence of patent infringement, such as in cases involving patents on:

- manufacturing methods;
- business-to-business products that are not readily available on the open market; and
- software for which it is difficult to verify the state of operation based on documents alone.

The 2019 revisions regarding the new onsite inspection process have introduced measures to mitigate any risk of trade secret misappropriation (described below). As such, strict requirements

apply to this new system:

- Court-appointed independent experts can be challenged by both parties to be a neutral third party.
- Petitioners of an onsite inspection cannot conduct the inspection.
- The target party of an onsite inspection may appeal to the courts to not disclose all or part of the inspection report before it has been disclosed to the petitioner. If the courts determine that the inspection report contains a trade secret, the report should be disclosed to the petitioner only after the content held to be a trade secret has been redacted.

This new evidence collection system will come into force on a date within one-and-a-half years from 17 May 2019. The exact date will be designated by a Cabinet order.

Damages calculation methodology

The 2019 revisions to the Patent Act also introduced a new methodology to calculate damages, which will come into force on a date within one year from 17 May 2019. The exact date will be designated by a Cabinet order.

Determination of damages for portion beyond patentee's production or sales capacity

Under Article 102(1) of the current Patent Act – which provides a rebuttable presumption of the amount of damages and lost profit – compensation for such damages and lost profits which arise from patent infringement are presumed to be calculated by multiplying the amount of expected profits as per the number of product units that the patentee would have earned had there been no infringement by the number of products sold by the infringer, subject to limitations arising from the patentee's capability. Under the amendments, patentees may seek:

- a reasonable royalty which exceeds their capability for products sold by an infringer; and
- lost profits for the number of products that the patentee would have sold within its capability.

As a practical example, if an infringer's profit per unit is $50 (A), the volume of infringing products is 100 units (B) and the patentee has the capacity to produce only 60 units (C):

- under the current law, damages are calculated at $300 (60 units multiplied by $50) ((i) in Figure 1); and
- under the 2019 revisions, damages are equivalent to the royalty that the patentee would have received from the infringer ((ii) in Figure 1) plus $300.

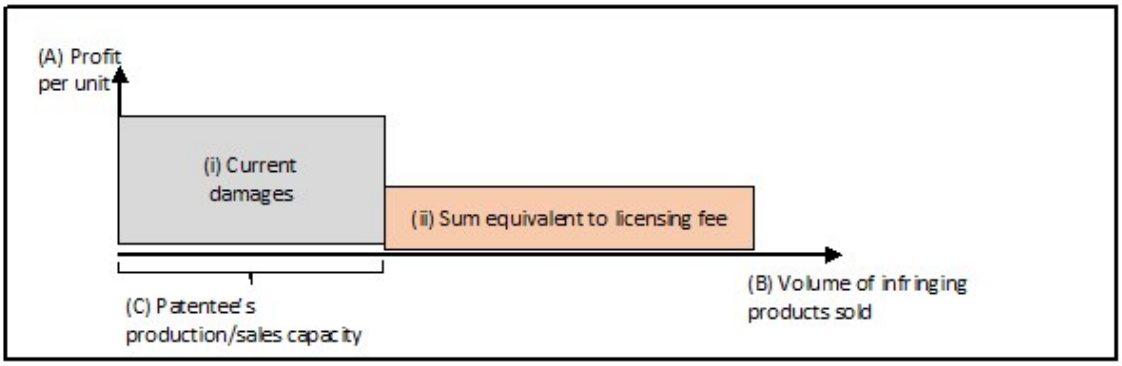

Figure 1. From "Review of the Patent Litigation System", Japan Patent Office, 2019

Increase in sum equivalent to licensing fee

Under the current Patent Act, patentees may claim compensation from an infringer for damages up to the amount that they would have been entitled to receive for the use of the patented invention.

Once the new methodology takes effect, the law explicitly stipulates that the courts may determine the amount of reasonable royalties to be paid as compensation by considering the amount that the patentee would have been entitled to receive if it and the infringer had entered into an agreement, on the basis that the patent is valid and has been infringed.

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