Patent Invalidity Defence in Patent Infringement Litigation in Japan

Recent changes made to Japan's Patent Law have enabled lawyers to argue patent invalidity as a defence to allegations of patent infringement. Masato Tanaka examines the issues that have arisen and the future for this area of IP law.

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The ability to argue patent invalidity as a defence to an allegation of infringement in patent infringement cases was only recently included in Japan's *Patent Law* under amendments made in 2004 and that came into effect on April 1 2005. As 18 months have passed since the 2004 Amendment came into effect, it is important to reflect on the issues relating to the patent invalidity defence in Japan, and consider the future outlook in this area.

Prior system

It was previously thought that an alleged patent infringer was not able to claim patent invalidity as a defence to an allegation of infringement in Japanese patent infringement litigation. This was because a determination of a patent's invalidity was the responsibility of the Japanese Patent Office (JPO), made in a quasi-court proceeding. In order to challenge the patent's validity in the courts, a party must initiate an administrative court proceeding against the JPO determination, which is separate from the infringement litigation.

Under this prior system, even if it was apparent to the court that a patent was invalid in the patent infringement litigation, the court was unable to dismiss the litigation due to such invalidity unless the patent was invalidated in the invalidation proceeding. This system was considered quite problematic and inconvenient.

Changes made by the Supreme Court

On April 11 2000, the Supreme Court of Japan presented a solution to this problem within the then existing framework of the law. The Supreme Court held that when there is a clear basis on which a patent can be invalidated, pursuing an injunction or damages claim will, except in special circumstances, be an abuse of the patent right and will not be permitted. As a result of this Supreme Court case, arguments as to patent invalidity became available to defendants in patent infringement cases in certain circumstances.

The 2004 Amendment to the Patent Law

Even after the Supreme Court's decision, issues remained with respect to the scope of application of the ruling due to requirements that there be a clear basis for patent invalidity, and reliance on the "abuse of right" principle.

Due to these remaining issues, the *Patent Law* was amended, as stated above, in 2004. Paragraph 1, Section 104 bis 3 of the Patent Law now provides that patentees and exclusive licensees are not able to exercise their rights under a patent against third parties if such patent is to be invalidated at an invalidation proceeding.

Patent infringement litigation and the 2004 Amendment

Following the enactment of the 2004 Amendment, in addition to arguments of patent non-infringement, there has been an increase in cases where patent invalidity arguments are made. In fact, courts are regularly making rulings on the validity of patents, except where the court dismisses a patentee's claim based on non-infringement. In that sense, there has been improvement in patent litigation efficiency and infringement litigation has become a much more effective patent dispute resolution mechanism.

Remaining issues following the 2004 Amendment

Despite the 2004 Amendment, some issues still remain. One such issue is the so-called "double track" issue. Jurisdiction to hear appeals of invalidation proceeding determinations remains with the Intellectual Property (IP) High Court and such appeals are the traditional way of arguing patent invalidity in the courts. Therefore, under the current system, even if a court rules in the patent infringement litigation that a patent is invalid, such ruling will only be effective between the parties to the litigation. If a party wants the patent invalidated, that party must resort to seeking an invalidation determination through the JPO.

Therefore, it is not unusual for alleged infringers to plead an invalidity defence in the litigation and initiate an invalidation proceeding with the JPO at the same time. Further, there are reportedly incidents where an alleged infringer loses the patent infringement litigation after arguing patent invalidity and then initiates an invalidation proceeding. The reason for this is that an alteration of an administrative disposition on which a court ruling was based is a ground for a retrial under Japan's Civil Procedure Law (Section 338, Paragraph 1, Item 8). And, therefore, it has been traditionally advocated that an infringer can request a retrial against a patent infringement ruling if the patent is subsequently invalidated at the JPO invalidation proceeding and the validity of the patent was the basis of the court ruling (as stated previously, IP High Court can review the JPO's determination in the invalidation proceeding).

Another issue is the treatment of corrections to patents. The above-mentioned Supreme Court case in 2000 provided a limitation to its principle in cases where there are special circumstances. Where a patent can avoid invalidation if corrections are made, even if the invalidity of the patent is otherwise apparent, will be considered to fall within the scope of special circumstances. The 2004 Amendment does not provide for special circumstances, but it is thought to apply in the same way. A patentee may apply to the JPO to correct the patent either by initiating a correction proceeding or filing a correction request during the patent invalidation proceeding.

Either way, the correction is to be made by the JPO. If the court handling the patent infringement litigation waits for the outcome of the correction proceeding, this will delay the litigation. If the court makes its determination, taking into account the possible correction to the patent without waiting for the outcome of the correction proceeding, there is potential for discrepancy between the JPO's determination and the position taken by the court in the patent infringement litigation.

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The future outlook

The issues raised above relate to the fundamental issue of how jurisdiction should be allocated between the JPO and the courts with respect to patents. This fundamental issue is likely to present an ongoing challenge and should be further analyzed.

The Tokyo District Court and the Osaka District Court are responsible for patent infringement litigation in the first instance (jurisdiction of infringement cases in the first instance is concentrated in these two District Courts having a specialized intellectual property division). In practice, where either a patent invalidation proceeding or patent correction proceeding is pending, these courts reviewing patent infringement need to take into account the possible outcome of such proceedings. These courts will face difficulties if there is any discrepancy between the position taken by the court in the litigation and the JPO's position disclosed to the court while the outcome of the litigation is pending. In such situations, the court will most likely take a flexible approach on how to progress the litigation, such that when the court is uncertain about the invalidity defence, the court may wait for the outcome of the JPO proceeding, but if the court is quite confident about its invalidity analysis, the court will proceed without waiting for the outcome of the invalidation proceeding or correction proceeding.

As mentioned above, where the court learns that the JPO's analysis is different from the court's position in the patent litigation, a court will have to determine whether it should, taking into account the persuasive power of the JPO's analysis, review its own analysis, make its own ruling leaving the discrepancy as is, or base its final opinion on different legal arguments. In any event, it will be difficult to resolve these issues without resolving the fundamental issue of jurisdiction.

Ultimately, under the Japanese system, the IP High Court has exclusive appellate jurisdiction with respect to determinations of the JPO in invalidation proceedings and decisions of the District Courts in infringement litigation (i.e. Tokyo District Court & Osaka District Court). In this way, the system is structured so that the IP High Court is able to unify these determinations. Therefore, issues of discrepancy will generally be resolved as long as this system is appropriately implemented. In this sense, the authority and responsibility vested in the IP High Court is very important.

In reviewing the past 18 months since the 2004 Amendment came into effect, the IP High Court has paid proper attention to these issues and appropriately fulfilled its responsibilities by implementing a system whereby the same panel of judges handle appeal cases in both the infringement and the patent invalidation proceeding with respect to the same patent.

However, while the current system appears to reduce discrepancies in practice, a party found to have infringed a patent after patent infringement litigation is not prohibited from repeatedly initiating invalidation proceedings with the JPO. In this respect, consideration should be given to prohibiting alleged infringers from continually repeating the same arguments in both patent infringement litigation and a patent invalidation proceeding or appeal proceeding thereto, or the grounds for retrial should be reviewed.

About the author

Formerly a judge on the bench of the Intellectual Property High Court, Masato Tanaka took up a position as an attorney and partner at Nagashima Ohno & Tsunematsu Law Offices in April 2006. Tanaka's main practice is in intellectual property, offering an extensive range of services, from strategic advice to infringement litigation and appeals against decisions of the JPO.

Tanaka started his career as an assistant judge in 1983. In 1993, he was appointed as a judge of the Osaka District Court and was a judicial research official of the Supreme Court from 1995 to 1998. In 1998, he became the director of the appointment division, personal affairs bureau, general secretariat of the Supreme Court and he served in that position until 2002 when he was appointed as a judge of the Tokyo High Court (intellectual property division). In 2005, he was appointed to the bench of the Intellectual Property High Court.