

The Effect of Supreme Court Decision on Amendment of Patent Act

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1. Introduction

The existing legislation of Japan does not contain a provision which provides that a precedent (generally, it means a certain decision repeated by courts, but sometimes, a certain legal judgment in a single case is also called as “precedent”) has been binding authority which requires a judge to be bound, respect and follow a precedent when he adjudicate actual cases (as an exception, Article 4 of the Court Act states “A conclusion in a judgment of a higher instance court shall bind the lower instance courts with respect to the case concerned”). Accordingly, a court, even a lower court, has unfettered authority in judging a case and in principle, it is not legally bound by prior decisions of higher courts. However, because of the need for the legal consistency or for the uniformity of judgments under the appellate system, it is not an exaggeration to say that de facto binding authority or guidance function of precedents, in particular the ones decided by the Supreme Courts, is recognized in judicial practice (for example, the decision by Nagoya High Court on June 24, 1975 (Hanrei-jihou 758-114) states “Considering that the Supreme Court has the function of ultimately determining the constitutionality of laws and regulations and unifying the interpretation of them, from the standpoint of legal consistency, once the decision by the Supreme Court regarding a law or a regulation in question is available, lower courts should respect the decision unless there is a special circumstance which justifies the adoption of a different opinion from the decision.”).

As for precedents of patent law, the main issues at actions against Appeal/Trial board decisions have been interpretations and applications of provisions of the Patent Act that relate to procedures for patent prosecutions (i.e., from patent applications to decisions of refusal or grant of patent) or to grounds for patent invalidation. Also, the main issues at patent infringement litigation have been interpretations and applications of the technical scope of the patented invention (Article 70 of the Patent Act) in particular and those of the provisions for infringement of right in the Patent Act (Article 100 to 106). With respect these issues, the Supreme Court often actively hands down interpretations and applications of law. Such acts not only perform important function of giving guiding principle to lower courts but also in some cases induce law revision. Representative examples are the decision by the Supreme Court (3rd. Petit. Bench) on April 11, 2000 (Minshu 54-4-1368) (“Kilby Patent case”), and the decision by the Supreme Court (3rd. Petit. Bench) on April 22, 2003 (Minshu 57-4-477) (“Olympus Optics case”). The former one was the motive force of enacting the Article 104-3 of the Patent Act, “Restriction on exercise of rights of patentee, etc.”, and the latter one created the momentum of revising

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Note:

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(4) and (5) of Article 35 “Inventions by Employees” in the Act.

2. Reconsidering the Legal Theory of Dividing Jurisdiction between the Patent Office and the Courts

When I was asked by a junior judge “what are your impressions on recent trends in patent infringement litigation from the standpoint of a lawyer who had sat on the bench and heard intellectual property cases for many years?”, I replied as below.

“The matter that has changed in ten years since I retired from the bench is the remarkable shortening of time intervals from commencement to disposition in patent infringement litigation. In addition, more important point is that the center of the issue in litigation has shift from infringement (whether or not the alleged infringing product or process is within the scope of the claim of the patent) to infringement and invalidity (whether or not there is a ground for invalidity of the patent) that are heard simultaneously. It is not an overstatement to say that this shift has brought qualitative change to patent infringement litigation.”

In Japan, it was considered previously that once a patent had been granted, unless there was final and binding Appeal/Trial board decision to invalidate the patent, the patent cannot be judged as invalid in patent infringement litigation even if a ground for invalidation is present. Such consideration comes from the legal theory of dividing jurisdiction between the Patent Office and the courts which originates in German law, a legal theory that grant of patent and validity or invalidity of patent is determined by the Patent Office in the first place and the propriety of that determination is decided in administrative litigation before court. However, against such position that an affirmative defense of patent invalidity shall not be admitted in patent infringement litigation, the position which admits the defense in patent infringement litigation gradually gained more support due to the reasons including (1) because obtaining final and binding Appeal/Trial board decision in proceedings of trial for invalidation is protracted, early solution to patent infringement disputes cannot be achieved and (2) it is unreasonable (duplication of procedures) to require a court of infringement litigation to admit infringement even though a clear ground for patent invalidity can be certified and judged. Under these circumstances, the aforementioned decision by the Supreme Court on April 11, 2000 states that “when there are clear grounds for invalidation of a patent, unless there is a special circumstance, claiming for injunction or damages based on the patent is the abuse of right and shall not be allowed.” This decision became a guiding precedent and in patent infringement litigations, lower courts decisions, which stated that the exercise of a patent which had a clear ground for invalidity constituted an abuse of right, appeared on after another. Moreover, the enactment of Article 104-3 of the Patent Act pursuant to Law No. 120 of 2004 enables a court to refuse the exercise of a patent right in patent infringement litigation without inquiring into whether a manifest ground for invalidity exists when the said patent is recognized as one that should be invalidated by a trial for patent invalidation.

This progress served as the impetus for a large shift in proceedings of patent infringement litigation in Japan from the previous form which centers on the issue of infringement to the form which simultaneously focuses on the issue of infringement and the defense of restriction on exercise of patent right (there are many cases in which the defense of restriction on exercise of patent right is admitted and the suit is dismissed without the issue of infringement is decided.). As a result, there is even a tendency that the defense of restriction on exercise of patent right is argued as the only issue in

patent infringement litigation without requesting a trial for patent invalidation when an effect of the judgment of patent invalidity to third parties is not required.

Although it would be going too far to consider these facts as a collapse of the legal theory of dividing jurisdiction between the Patent Office and the courts, it is natural that there comes an opinion that so-called “double tracks” should be resolved systematically. The “double tracks” means a system where invalidity of a patent can be argued in both procedures of patent infringement litigation and a trial for invalidation. In this connection, it is noted that one of the “Priority Measures” in the Intellectual Property Strategic Program 2009 states “Regarding the issue of so-called “double-track” system, ... the GOJ will discuss how to handle this issue and form a conclusion by the end of FY2010”. Because this is the problem which relates to the basic framework of our patent litigation system, it is necessary to discuss what type of system design is preferable.

3. The Future of the Employee Invention System

From April 1983 to April 1998, I had been on one of the benches of IP divisions at the Tokyo High Court, the predecessor of the Intellectual Property High Court. During these 15 years, I heard only one case claiming compensation for an employee invention. As shown by this fact, it had been extremely unusual that dispute over compensation for an employee invention had reached to litigation.

This situation was changed by the decision of Tokyo District Court which was adjudicated as first instance of the aforementioned Olympus Optics case. The decision determined the reasonable value of the compensation for the employee invention without reference to the compensation rule set by the company. The above mentioned decision by the Supreme Court as the final appellate instance states as follows. “The employee, etc., who vests the right to obtain a patent or the patent right for an employee invention in the employer, etc. in accordance with employment regulation or any other stipulation, shall have the right to receive reasonable value as compensation. Even if there is a provision regarding the compensation in such employment regulation or any other stipulation, when the total amount of the compensation calculated in accordance with the employment regulation or any other stipulation does not reach the sum which should be paid to the employee, etc. based on Article 35(4) of the Patent Act, he can demand the payment of shortfall under Article 35(3) of the Patent Act.” This decision had a large social impact and led to a lively debate on revising Article 35 of the Patent Act.

A company makes profit by inseparably connected various activities such as R&D and business operation, etc. that require taking risks. Therefore it cannot be denied that it is an extremely difficult issue for a court to suitably determine the amount of reasonable value from limited evidence. I tackled this issue of reasonable compensation in a committee of the Institute of Intellectual Property and in the Patent System Subcommittee of the Industrial Structure Council, and have always believed that when a company lays down a compensation regulation after adequately hearing opinions from employees and makes such regulation widely known to employees, the amount of reasonable value should be determined in accordance with the regulation. I have also always believed that when a company formulates a rational compensation regulation by considering the situation of employees, the valuation of the company in the society will increase and employees will strive for developing superior technologies in relief by knowing that they receive rewards based on the regulation.

The legislative intent of the revised Article 35 of the Patent Act largely coincides with my above observations. The revised Article 35 respects voluntary agreement between an employer and employees, and regards procedural aspect of forming the agreement as important. As long as the procedural reasonability which is determined based on Article 35(4) is ensured, courts will find the sum paid to an employee in accordance with the regulation as reasonable value (the same thing can be said to the payment based on a contract).

Responding to the revised Article 35 which came into effect on April 1, 2005, many companies made great efforts to lay down regulations on compensation that ensure procedural reasonableness by conducting procedures such as having talks with all employees and disclosing the regulations to employees, which live up to the legislative intent of the revised Article 35. The IP divisions of these companies played a central role in the efforts.

Due to Article 2 of the supplementary provisions, the revised Article 35 of the Patent Act is only applied to a case in which a employer, etc., receives the right to obtain a patent for an employee invention on and after April 1, 2005. For this reason, it seems that there is no litigation yet in which the revised Article 35 is applied. But the legislative intent of the revision is well understood by the courts and I believe the courts would most likely apply the law in accordance with the intent.

Recently, opinions that request to consider the introduction of the legal entity invention system (a system in which the title of an employee invention naturally attributed to a legal entity) or total deletion of Article 35 of the Patent Act have been expressed from the business community. I admit benefit in taking time to debate the future of the employee invention system. However, because the revised employee invention system has only come into operation, we should strive for the proper operation of the system to achieve its purpose rather than discussing the further revision. A firm stance to avoid an inconstant policy is desired.