

Draft for Patent Invalidation Rates in Japan

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I. Challenging the validity of patents in Japan

The processes and mechanisms for challenging patent validity in Japan have changed significantly over the past decade. Currently, there is a dual track system, with two ways in which the validity of a patent can be challenged. A patent can be challenged before the Japan Patent Office (JPO) in an invalidation trial and be declared invalid, or invalidity can be raised as a defense in an infringement suit that is only binding on the parties to the action. Frequently the paths are pursued concurrently. In both cases, the result of an initial ruling can be appealed to the Intellectual Property High Court (“IP High Court”) and subsequently the Supreme Court. Frequently the two paths are pursued at the same time, which creates complications.

A. Invalidation Proceedings

i. Invalidation Trials

Historically, patent validity could only be raised before the JPO.² Although this has changed, JPO invalidation trials are still a commonly used mechanism for challenging patent validity,³ and they remain the only way that a patent can be formally declared invalid. The modern invalidation trial came into being in 2004, when Japan merged its post-grant opposition proceeding and old invalidation trial to create the new invalidation trials.⁴ Invalidation trials

¹ We would like to thank TMI Associates for their invaluable contributions in providing data on the invalidity rates in Japan.

² Haito Sun, *Post-Grant Patent Invalidation in China, Europe, and Japan: A Comparative Study*, 15 FORDHAM INTELL. PROP. MEDIA & ENT. L.J. 273, 296 (2004).

³ In 2010, there were 237 demands for trial for invalidation made to the JPO. EUR. PATENT OFFICE, JAPAN PATENT OFFICE, KOREAN INTELLECTUAL PROP. OFFICE, U.S. PATENT AND TRADEMARK OFFICE, FOUR OFFICE STATISTICAL REPORT 15 (Japan Patent Office ed., 2010).

⁴ *Id.* at 298.

(sometimes referred to as “invalidity trials”) are administrative proceedings before the Appeals Divisions of the JPO.⁵

Under the new law, anyone can challenge the validity of a patent in an invalidation trial,⁶ and the challenge can be made at any time, even, in some cases, after the expiration of the patent.⁷ The review is *inter partes*, with opportunities for the requesting party to present evidence and an oral hearing⁸ unless the chief examiner determines that documentary proceedings will suffice.⁹ After the party seeking to invalidate the patent has filed a demand for an invalidation trial, the patentee can file a response. The response can include amendments to narrow the patent claims.¹⁰ The requesting party can then provide more evidence prior to the oral hearing.¹¹ The hearing is before a panel of three to five experienced examiners.¹² As of 2008, the process of seeking patent invalidation through an invalidation trial took an average of 9.5 months.¹³ Prior to that there was a period of several years that saw the process get successively faster.¹⁴

Decisions of the examiners in the invalidation trial can be appealed by either party, with the opposing party serving as the defendant rather than the JPO serving as the defendant, which

⁵ JAPAN PATENT OFFICE, ANNUAL REPORT 2011, 192 (2011)[hereinafter ANNUAL REPORT 2011], available at http://www.jpo.go.jp/cgi/linke.cgi?url=/shiryou_e/toushin_e/kenkyukai_e/annual_report2011.htm.

⁶ Tokkyo ho [Patent Law], Law No. 121 of 1959, art. 123, para. 2 (Japan)(amended 2006)[hereinafter Patent Law (Japan)], translated at <http://www.cas.go.jp/jp/seisaku/hourei/data/PA.pdf>. Challenging a patent in a trial has a fee of ¥49,500 (between \$600 and \$700) plus ¥ 5,500 per claim (around \$70). ANNUAL REPORT 2011, *supra* note 5, at 199.

⁷ Patent Law (Japan), *supra* note 6, at art. 123, para. 3.

⁸ *Id.* at art. 145.

⁹ *Id.* at art. 145, para. 1.

¹⁰ Sun, *supra* note 2, at 299 (2004).

¹¹ *Id.*

¹² Patent Law (Japan), *supra* note 6, at art. 136 para. 1; Sun, *supra* note 2, at 299 (There are usually three examiners, each with at least ten years of experience.).

¹³ John A. Tessensohn & Shusaku Yamamoto, *Resolving IP Disputes in Japan: Counting the Costs*, WIPO MAGAZINE (World Intellectual Prop. Org., Geneva), Feb. 2010, at 16, 17, available at http://www.wipo.int/wipo_magazine/en/pdf/2010/wipo_pub_121_2010_01.pdf.

¹⁴ *Id.*

it does in most appeals of its rulings.¹⁵ New evidence of references can be introduced at the appellate stage, but new issues cannot be raised.¹⁶ Appeals were heard by the Intellectual Property Division of the Tokyo High Court until April 2005, when the Intellectual Property High Court was established as a “Special Branch” of the Tokyo High Court, and all of the judges of the Intellectual Property Division became judges on the new court.¹⁷ Appeals are handled quickly at the IP High Court, with an average time of seven to eight months from commencement of the appeal to disposition.¹⁸ Following a ruling at the IP High Court, parties can appeal to the Supreme Court.¹⁹

Throughout the process, patent owners are given several opportunities to amend their patents to avoid invalidation, starting with their response to the demand for an invalidation trial. Furthermore, a patentee seeking an appeal has the opportunity to narrow the scope of the patent by seeking a trial for correction following the JPO’s ruling on validity. If the JPO finds a patent invalid, a patentee may amend the claims after submitting an appeal to the IP High Court. If the JPO accepts the amended claims, the High Court will remand the action to the JPO.²⁰

ii. Invalidity as a Defense in Infringement Actions

Although patent validity was once solely under the jurisdiction of the JPO, since 2000, questions of validity can also be raised during infringement actions before district courts. This is

¹⁵ Patent Law (Japan), *supra* note 6, at art. 179.

¹⁶ Yoshinari Kishimoto, *How to Challenge Patent Validity*, MANAGING INTELLECTUAL PROPERTY (2005).

¹⁷ Katsumi Shinohara, *Outline of the Intellectual Property High Court*, AIPPI JOURNAL, May 2005, at 131, 131, available at <http://www.ip.courts.go.jp/eng/documents/pdf/conference/200505.pdf>. As a “Special Branch” rather than a division, the court enjoys greater autonomy and resources. *Id.*

¹⁸ *Number of Suit Against Appeal/Trial Decision made by JPO Commenced and Disposed, and Average Time Intervals From Commencement to Disposition (~March 31 2005 Tokyo High Court)*, INTELLECTUAL PROPERTY HIGH COURT, http://www.ip.courts.go.jp/eng/documents/stat_02.html (last visited June 13, 2012).

¹⁹ Masahiro Samejima, Editorial, *Is Japan A Hostile Environment for Patents?*, INTELLECTUAL ASSET MANAGEMENT, Jan./Feb. 2010, at 88, 90.

²⁰ Shuhei Shiotsuki, Presentation, *Invalidation Procedure and Infringement Trials in Japanese Courts and Patent Office*, 7 CASRIP SYMPOSIUM PUBLICATION SERIES 87, 87-88 (2001), available at <http://www.law.washington.edu/casrip/symposium/Number7/2B-Shiotsuki.pdf>. See also Patent Law (Japan), *supra* note 6, at art. 126, para. 2.

a result of the Supreme Court's 2000 ruling in the *Kilby* case, which held that in infringement action, the court should look at obvious questions of validity before ruling on infringement.²¹ In 2004, the Patent Act was amended to incorporate this principle.²² Infringement actions, like all "hard IP" civil cases, can only be brought in two of the country's fifty district courts: Tokyo and Osaka, which both have specialized IP divisions.²³ Jurisdiction is divided geographically between the courts.²⁴ The Tokyo District Court tends to handle significantly more patent cases than the Osaka court.²⁵ Like the JPO's decisions in invalidation trials, district court rulings are appealable to the IP High Court and then to the Supreme Court.²⁶ Similarly, the turnaround at the IP High Court is fast, and appeals from district courts were disposed of in an average of 7.5 months in 2011.²⁷ Arguing invalidity as a defense in infringement cases has become increasingly popular since the early 2000s, and invalidity is now asserted in 70-80% of infringement cases.²⁸

The standard used by the court when finding a patent invalid in an infringement action has changed since *Kilby*. Under *Kilby*, to invalidate a patent in an infringement case the district court had to find that the JPO would likely find the patent invalid.²⁹ While the precise standard

²¹ Sun, *supra* note 2, at 296-97.

²² Samejima, *supra* note 19, at 91. For the amended statute see Patent Law (Japan), *supra* note 6, at art. 104-3.

²³ SHIOCHI OKUYANA, JAPAN PATENT OFFICE & ASIA-PACIFIC INDUS. PROP. CTR., JIII, PATENT INFRINGEMENT LITIGATION IN JAPAN (2007), available at <http://quon-ip.jp/30e/Patent%20Infringement%20Litigation%20in%20Japan.pdf>.

²⁴ Samejima, *supra* note 19, at 90.

²⁵ Michael C. Elmer & Stacy D. Lewis, *Where to Win: Patent Friendly Courts Revealed*, MANAGING INTELLECTUAL PROPERTY (2010).

²⁶ Samejima, *supra* note 19, at 90.

²⁷ *Number of Intellectual Property Appeal Cases Commenced and Disposed, and Average Time Intervals From Commencement to Disposition Courts of Second Instance: Intellectual Property High Court (~March 31 2005 Tokyo High Court)*, INTELLECTUAL PROPERTY HIGH COURT, http://www.ip.courts.go.jp/eng/documents/stat_01.html, (last visited June 13, 2012).

²⁸ Shigeo Takakura, *Review of the Recent Trend in Patent Litigation from the Viewpoint of Innovation*, RESEARCH INSTITUTE OF ECONOMY, TRADE & INDUSTRY, IAA (Sept. 3, 2008), http://www.rieti.go.jp/en/columns/a01_0242.html.

²⁹ Sun, *supra* note 2, at 297.

was unclear,³⁰ there had to be obvious reasons for invalidity and a high degree of certainty that the JPO would invalidate the patent were an invalidation trial to be brought.³¹ However, the obviousness requirement was not incorporated into the amended statute.³²

Similarly, the actions a court takes after finding that a patent should be invalidated have changed. The *Kilby* case stated that if, during an infringement trial, a court found that a patent should be invalid, the patent owner could not obtain relief (injunctive or monetary).³³ Today, as a result of the 2004 amendments to the Patent Act,³⁴ the standard practice is that after a finding of invalidity, the court dismisses the claim.³⁵ It is important to note that under both of these systems, any ruling by the court only applies to the parties to the action, as the patent itself is not truly invalidated. Rather, the court has said that because the patent should not be valid, it will not enforce it, and the power to invalidate the patent remains with the JPO.

iii. The Function of the Dual System

The dual system has the potential create several problems. These can arise where a patent is simultaneously challenged in an infringement suit and an invalidation trial, which is not uncommon. Although the numbers have varied over the past decade, roughly a quarter to a half of demands for invalidation trials are brought in connection with infringement cases.³⁶

³⁰ Shiotsuki, *supra* note 20, at 89 (Japanese law does not make the same distinctions between preponderance of evidence and clear and convincing evidence that American law does, so English translations of the case varied in their treatment of the standard.).

³¹ *Id.*

³² Toshiaki Iimura, *Intellectual Property Infringement Litigations and Recent Movements toward System Reforms*, 29 AIPPI JOURNAL 279 (2004).

³³ Shiotsuki, *supra* note 30, at 89.

³⁴ Patent Law (Japan), *supra* note 6, at art. 104-3 para. 1 (“Where, in litigation concerning the infringement of a patent right or an exclusive license, the said patent is recognized as one that should be invalidated by a trial for patent invalidation, the rights of the patentee or exclusive licensee may not be exercised against the adverse party.”).

³⁵ Masahiro Samejima, Editorial, *Is Japan a Hostil Environment for Patents?*, INTELLECTUAL ASSET MANAGEMENT, Jan./Feb. 2010, at 88, 91 (2010).

³⁶ Shinjiro Ono, *Recent Status and Problems of Patent Appeals and Trials: Effects of Recent Reforms in the JPO Appeal System and of Recent Judiciary Reforms (2003-2007), Including the Establishment of an IP High Court*, WINDS FROM JAPAN (The Licensing Execs. Soc’y of Japan), Feb. 2008, at 1, 2.

Fortunately, most invalidation trials occur before court decisions in infringement suits,³⁷ and one solution to this problem is that a lawsuit for infringement can be suspended until a decision is reached in a trial for invalidation.³⁸ Additionally, where an invalidation trial is brought in connection with an infringement lawsuit, the average pendency of the invalidation trial was 9.1 months in 2006, down from 19 months in 2000,³⁹ and the Appeals Divisions have prioritized these cases, so the infringement trial is not significantly delayed.⁴⁰

There have been reports of alleged infringers losing after asserting the defense of invalidity then challenging the validity at an invalidation trial.⁴¹ Given that 29.1% of invalidation trials brought in connection with infringement suits come after the decision in the infringement suit, this is likely to happen.⁴² It has been argued that if the JPO finds the patent invalid, then the alleged infringer should be entitled to a retrial on infringement.⁴³

Another way the courts have sought to resolve the problems arising from the dual track system is through the use of “virtual unification of decisions” at the IP High Court.⁴⁴ When a decision of invalidation on before the JPO and a decision on validity in a district court are appealed they are heard by the same panel of the IP High Court and a “virtual unified decision” is made in order to avoid conflicting rulings at that level and uniformly resolve the rulings of lower tribunals.⁴⁵

³⁷ Ono, *supra* note 36, at 3. From April 2000, thorough 2006, 70.8% of invalidation trials brought in connection with infringement suits were brought before a court decision. *Id.* (calculations made from raw data).

³⁸ Patent Law (Japan), *supra* note 6, at art. 168 para. 1. *See also* OKUYANA, *supra* note 23.

³⁹ *Id.*

⁴⁰ *Id.* at 4.

⁴¹ Matso Tanaka, *Patent Invalidity Defence in Patent Litigation in Japan*, ASIALAW JAPANREVIEW, Oct. 2006, at 10, 11.

⁴² Ono, *supra* note 36, at 3 (calculations made from raw data).

⁴³ Tanaka, *supra* note 41, at 11.

⁴⁴ Tamotsu Shoji, *The “Dual-Track” System in Japan: Will Conflict Result from Invalidity Decisions Being Made in Both the JPO and the Courts?*, INTELLECTUAL PROPERTY HIGH COURT, http://www.ip.courts.go.jp/eng/documents/pdf/conference/100408_1.pdf (last visited June 13, 2012).

⁴⁵ *Id.*

In *Kilby*, the court stated that the rule that district courts should not enforce patents that would likely be invalidated did not apply in special circumstances.⁴⁶ One such special circumstance is where the patent can be corrected to avoid invalidity. Although the 2004 amendment to the Patent Act did not explicitly incorporate this concept, it is generally applied to keep the “special circumstances” limitation, which greatly complicates the double track system where a patent owner applies for a correction because the alleged infringer can apparently not raise an invalidity defense until the correction is resolved.⁴⁷

B. Grounds for Invalidity

A patent can be invalidated on a wide variety of grounds laid out in statute.⁴⁸ These include the improper granting of the patent to a foreign national whose country does not have reciprocity with Japan; lack of novelty; obviousness; failure to conform with public order, morality or public health; lack of a sufficiently clear explanation of the invention; and failure to follow joint ownership rules.⁴⁹ Notably, a patent cannot be held invalid for failure to disclose relevant prior art to the JPO.⁵⁰

II. Summary of Findings

A. Invalidation Trials

The number of demands for invalidation trials has fluctuated over the past twenty years, but the system has also changed significantly during that time. The number of demands

⁴⁶ Tanaka, *supra* note 41, at 11.

⁴⁷ Tanaka, *supra* note 41, at 11.

⁴⁸ Patent Law (Japan), *supra* note 6, at art. 123, para. 1.

⁴⁹ *Id.* at art. 123, para.1.

⁵⁰ Article 36, paragraph 4, subparagraph iii of the Patent Act, is not listed in article 123, paragraph 1 as grounds for invalidation.

increased drastically between 1996 and 1999.⁵¹ This was possibly due to the 1996 elimination of pre-grant opposition. Between 2003 and 2004, the number of demands increased dramatically as well, likely due to the elimination of the post-grant opposition proceeding.⁵² Interestingly, although there had been almost 3900 post-grant oppositions filed in 2003, the number of demands for invalidation only increased by 104 when the proceeding was eliminated, and in 2006, the number of demands returned to its 2003 levels.⁵³

Demands for Patent Invalidation and Dispositions of Invalidation Trials⁵⁴

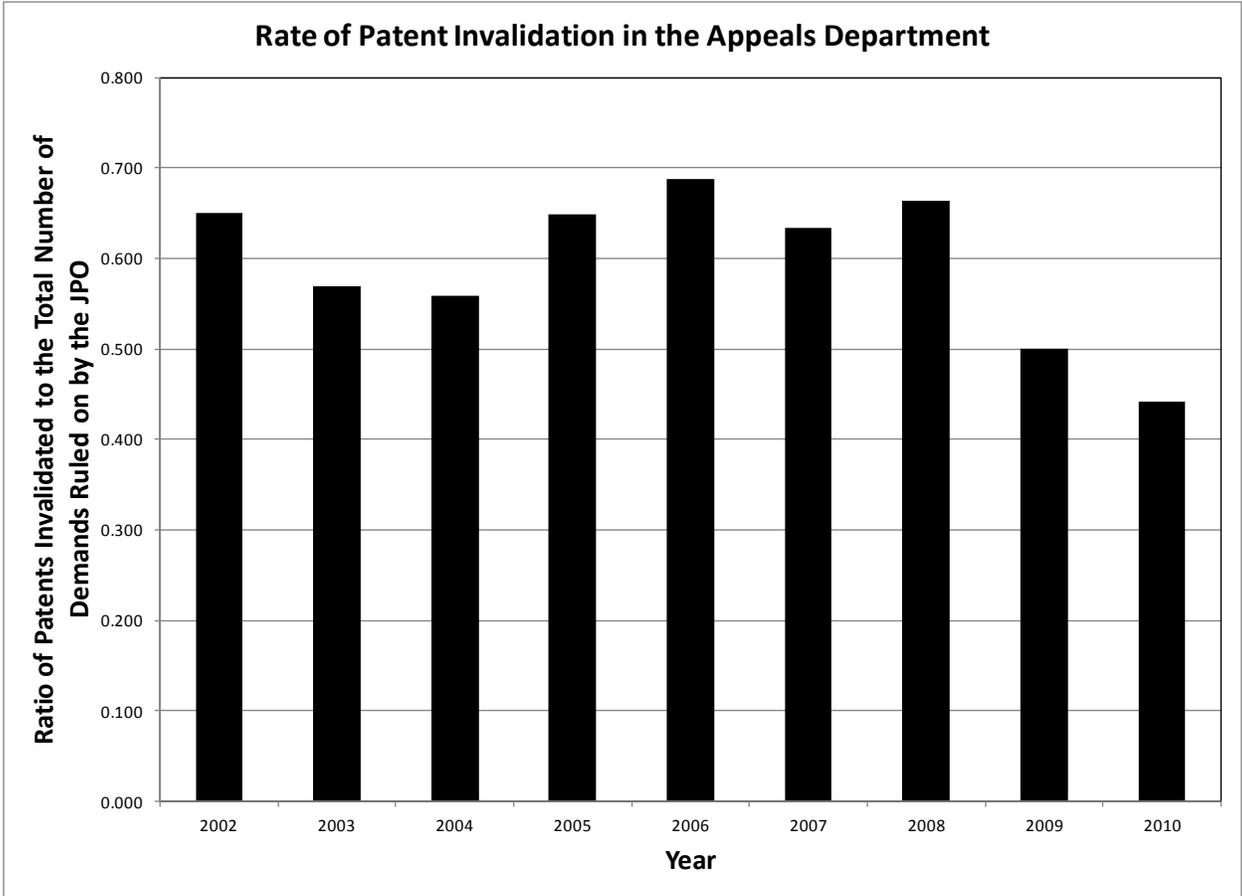
Year	Demands	Final Dispositions in Appeals Department			Ratio of Invalidations to New Demands	Ratio of Invalidations to Total Number of Demands Ruled on by the JPO
		Accepted (Including Partially Invalidated)	Not Accepted (Including Dismissal)	Withdrawal/abandonment		
1995	159	45			0.283	
1996	125	39			0.312	
1997	184	22			0.120	
1998	252	46			0.183	
1999	293	27			0.092	
2000	296	77			0.260	
2001	283	138			0.488	
2002	260	156	84	88	0.600	0.650
2003	254	128	97	46	0.504	0.569
2004	358	133	105	63	0.372	0.559
2005	343	211	114	54	0.615	0.649
2006	273	194	88	34	0.711	0.688
2007	284	142	82	35	0.500	0.634
2008	292	182	92	36	0.623	0.664
2009	257	123	123	37	0.479	0.500
2010	237	102	129	23	0.430	0.442

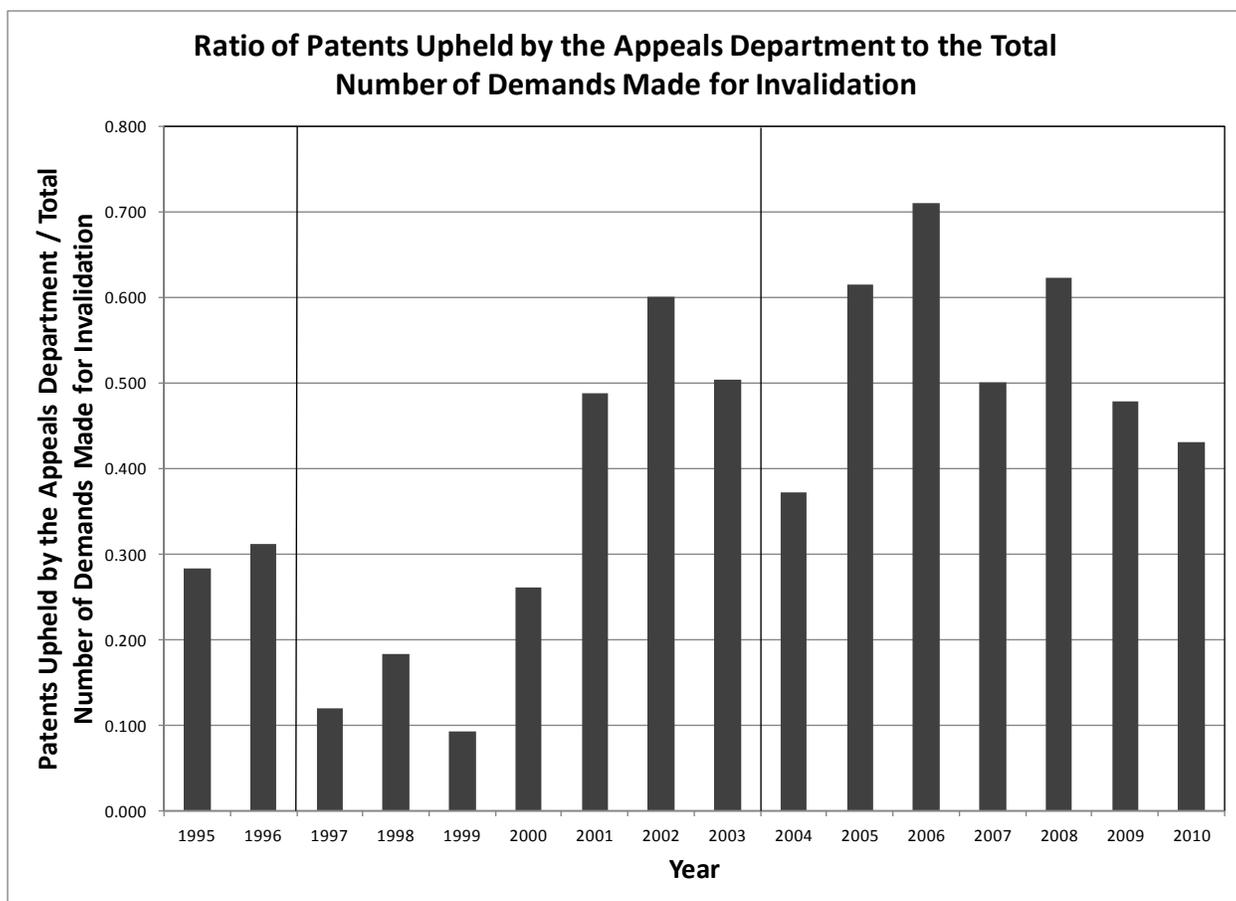
⁵¹ JAPAN PATENT OFFICE, ANNUAL REPORT 2005, 91 (2005), [hereinafter ANNUAL REPORT 2005] available at http://www.jpo.go.jp/cgi/linke.cgi?url=/shiryou_e/toushin_e/kenkyukai_e/annual_report2005.htm.

⁵² ANNUAL REPORT 2011, *supra* note 5, at 30.

⁵³ ANNUAL REPORT 2011, *supra* note 5, at 30; JAPAN PATENT OFFICE, ANNUAL REPORT 2008, 143 (2008), [hereinafter ANNUAL REPORT 2008] available at http://www.jpo.go.jp/cgi/linke.cgi?url=/shiryou_e/toushin_e/kenkyukai_e/annual_report2008.htm.

⁵⁴ See ANNUAL REPORT 2011, *supra* note 5, at 177; ANNUAL REPORT 2008, *supra* note 53, at 143; and JAPAN PATENT OFFICE, ANNUAL REPORT 2005, *supra* note 51, at 91.





Between 2002 and 2010, the rate at which the JPO has found patents invalid has varied between 44.2% in 2010 and 68.8%, which marked a peak in 2006. However, where the JPO has upheld the patent, the High Courts have been likely to reverse that ruling. In fact, between 2002 and November 2007, they reversed JPO decisions affirming the validity of patents half the time.⁵⁵ However, during the same period, they upheld JPO decision invalidating patents only 10.6% of the time.⁵⁶

The Rate of Reversal of Invalidation Trial Decisions⁵⁷

Fiscal Year	2002	2003	2004	2005	2006	2007*
Overall	39.0%	22.6%	23.9%	22.0%	18.3%	29.4%
	(41/105)	(28/124)	(27/113)	(18/82)	(19/104)	(20/68)
JPO's Decision	20.0%	12.2%	1.5%	8.3%	11.5%	10.4%

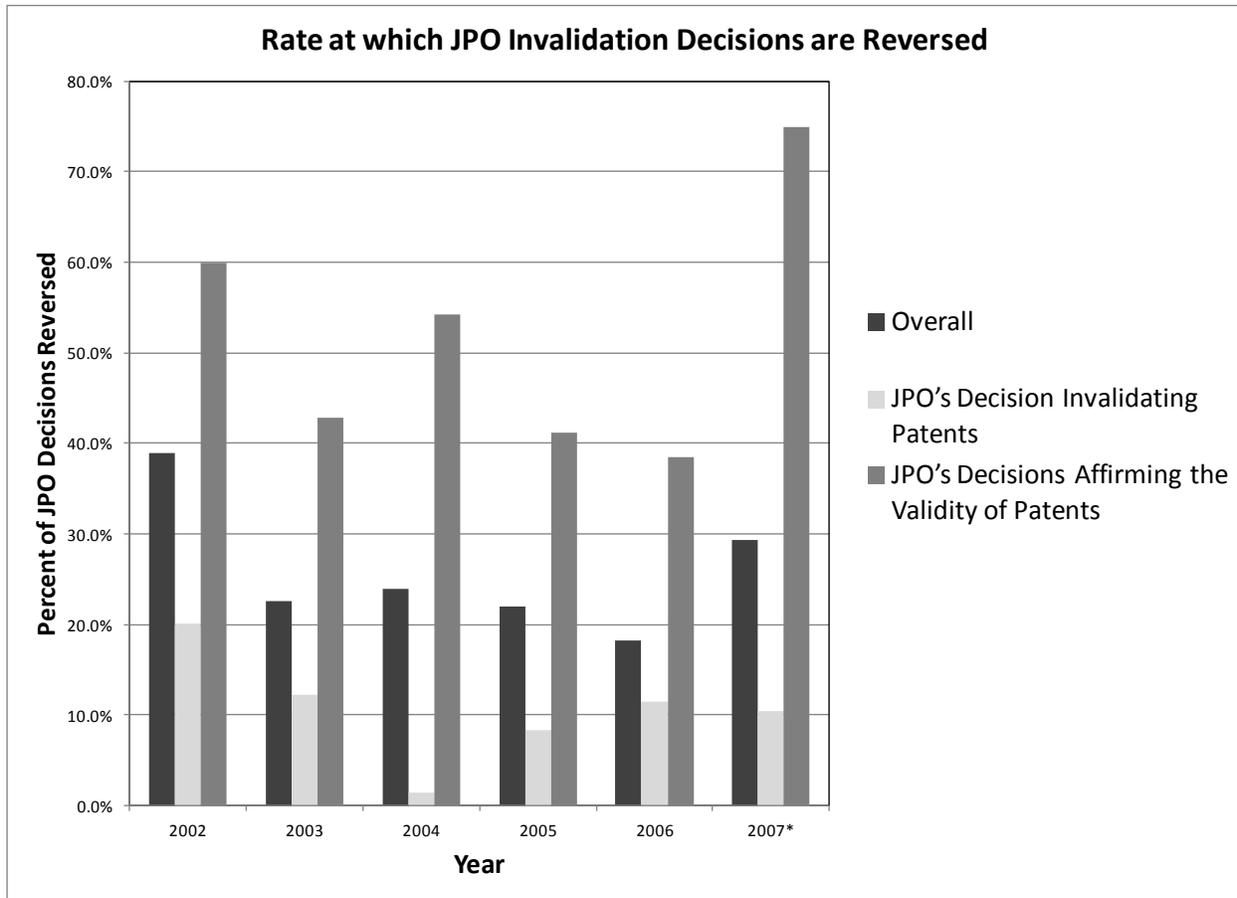
⁵⁵ Ono, *supra* note 37.

⁵⁶ *Id.*

⁵⁷ *Id.*

Invalidating Patents	(11/55)	(10/82)	(1/65)	(4/48)	(9/78)	(5/48)
JPO's Decisions Affirming the Validity of Patents	60.0%	42.9%	54.2%	41.2%	38.5%	75.0%
	(30/50)	(18/42)	(26/48)	(14/34)	(10/26)	(15/20)

*April-November



B. District Court Rulings

Patent owners have not been very successful in Japanese district courts, both generally and in terms of patent invalidation.⁵⁸ Patentees lose in district courts around 80% of the time,

⁵⁸ Takakura, *supra* note 28.

and invalidity is increasingly raised as a defense and used by the courts to find for the alleged infringer.⁵⁹

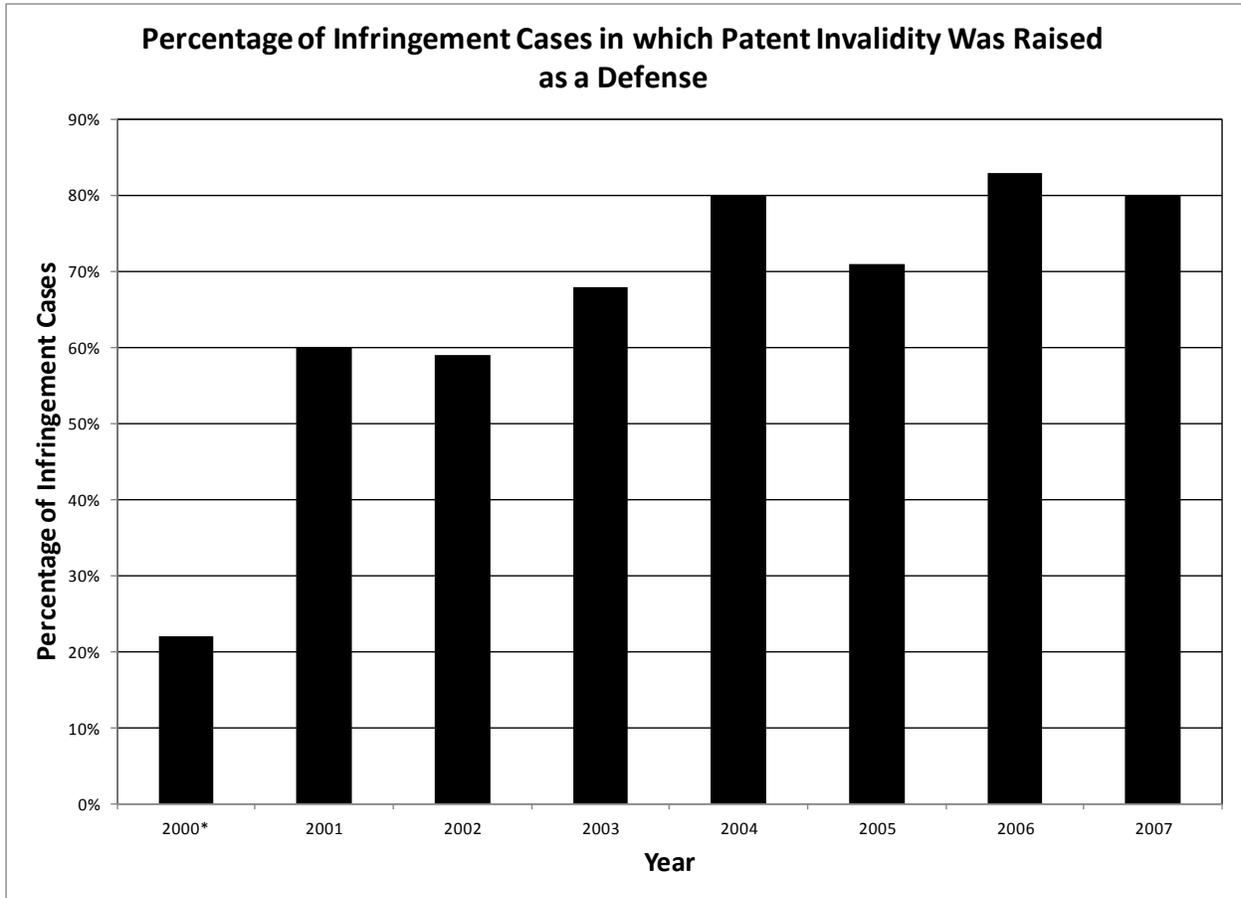
District Court Rulings on Patent Infringement Cases⁶⁰

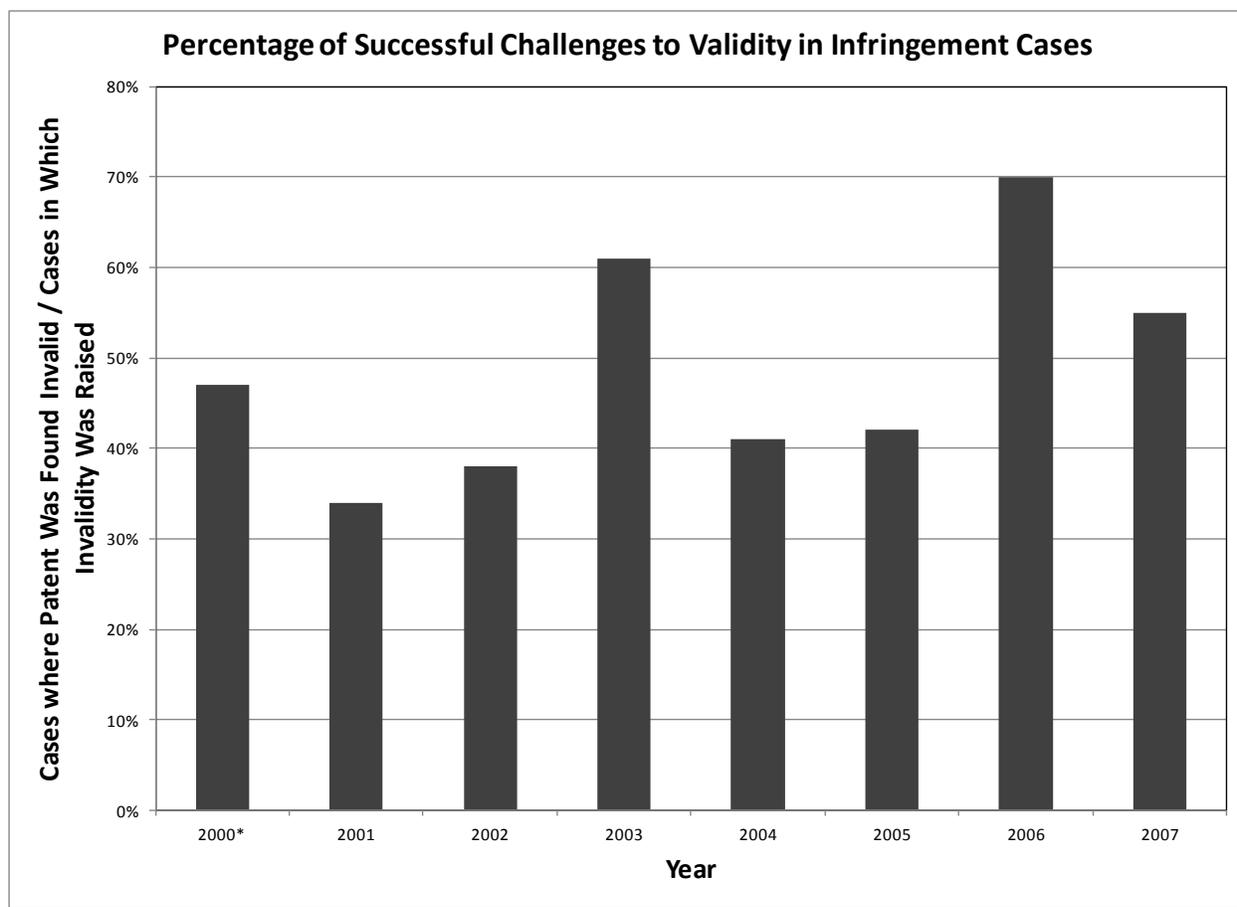
Year	2000*	2001	2002	2003	2004	2005	2006	2007
Number of Rulings	74	102	90	65	70	63	40	50
Number of Cases	61	80	71	55	58	52	35	35
Patentees' Defeat rate	82%	78%	79%	85%	83%	83%	87%	70%
Number of cases in which defendant asserted patent invalidity	15	61	53	44	56	45	33	40
Ratio to the total number of cases	22%	60%	59%	68%	80%	71%	83%	80%
Number of cases in which a patent was considered invalid	7	21	20	27	23	19	23	22
Ratio to cases in which defendant asserted patent invalidity	47%	34%	38%	61%	41%	42%	70%	55%
Ratio of cases ruled against patentee	11%	26%	28%	49%	40%	37%	66%	63%

*April-December

⁵⁹ *Id.*

⁶⁰ From *id.*





III. Changes in National Law the Last 10 Years

Understanding recent changes in Japanese patent law requires some historical background. Since 1996, Japanese patent law has undergone a number of substantial changes, resulting from judicial rulings, legislative changes, and changes in the behavior of practitioners. Prior to 1996, patents could be challenged in invalidation trials or through pre-grant opposition.⁶¹ In 1996, pre-grant opposition was eliminated and replaced with a post-grant opposition proceeding, because the old system was seen as causing too many delays and was used to harass patent applicants.⁶² In 2003, Japan eliminated its *ex partes* post-grant review system and modified its trial for invalidation because of difficulties it posed for challengers of patents, who

⁶¹ Sun, *supra* note 2, at 296.

⁶² *Id.*

had to identify the true party in interest and file the opposition within six months of the patent's issuance, and because the post grant proceeding was seen as significantly overlapping with the then existing trial for invalidation.⁶³ These changes went into effect on January 1, 2004.⁶⁴

All of these proceedings occurred before the JPO, and for many years the JPO had exclusive jurisdiction over invalidation proceedings. However, in 2000, the Supreme Court ruled in *Texas Instruments v. Fujitsu, Ltd.* (the Kirby case) that courts should look at invalidation before ruling on infringement, allowing district courts who heard infringement cases to rule on patent validity.⁶⁵ In 2004, the Patent Act was amended to codify this principle.⁶⁶

A final statutory reform took place in April 2005, when the Intellectual Property High Court was established to hear appeals from District Court rulings on intellectual property and JPO rulings.⁶⁷ Before this, all appeals went to Tokyo High Court. Although the Tokyo High Court was a court of general appellate jurisdiction, it had divisions that specialized in intellectual property law. The judges in these divisions became the judges on the new courts.⁶⁸

Over recent years, there has been a substantial shift away from invalidation trials to finding invalidation in infringement actions,⁶⁹ and courts seem to be more willing to exercise that authority. However, invalidation trials before the JPO remain the only way that a patent can be truly invalidated.

⁶³ *Id.* at 297-98.

⁶⁴ *Id.* at 298.

⁶⁵ *Id.* at 296-97.

⁶⁶ Samejima, *supra* note 19 at 91.

⁶⁷ Shinohara, *supra* note 17 at 131.

⁶⁸ *Id.*

⁶⁹ Ono, *supra* note 37.