

## **A Tornado is Building Up in Japan's IP Litigation**

### **Summary**

The Japanese Supreme Court's decision in the Kilby case has removed the restriction of the inability for judicial courts to interfere with the validity of existing patents. The Kilby Supreme Court decision is now producing a tornado broadly affecting the IP field.

### **I. The Kilby Patent**

The Kilby patent in this article is Japanese patent No. 320,275, which may also be referred to as the '275 Kilby patent to distinguish it from others generally called Kilby patents.

The moniker "Kilby" comes from the inventor's name, Jack St. Claire Kilby, who developed the fundamentals for semiconductor integrated circuits (SIC) while being a researcher with Texas Instruments (TI), U.S. Mr. Kilby was awarded the Nobel Prize in physics in 2000 for this pioneering work.

Two Japanese patent applications, patent appln. S35-3745/1960 (grandparent) and patent appln. S39-3689/1964 (parent) preceded the current Kilby patent application. The grandparent matured into a patent and then expired, whereas the parent did not mature into a patent but was rejected during the patentability examination. The '275 Kilby patent was divisional from the rejected parent (S39-368/1964), and corresponds to U.S. Patent No. 3,261,081 for example.

The patent litigation between Fujitsu (Japanese computer manufacturer) and TI involving the '275 Kilby patent started when Fujitsu filed a suit against TI seeking a declaration of non-liability in 1991, that is, Fujitsu sought the confirmation that their SIC manufacture does not infringe the '275 Kilby patent, and then Fujitsu argued invalidity of the '275 Kilby patent. Eventually, the Supreme Court confirmed the invalidity in 2000, which is the above-noted Kilby Supreme Court decision.

### **II. Who is eligible to invalidate an existing patent in Japan?**

Patent rights are granted by the Japanese Patent Office (JPO), a specialized government agency, and proceedings for invalidation take place at the SFO as invalidation trials, so that existing patent rights cannot be invalidated otherwise than by an invalidation trial presided by the JPO. This means that all judicial courts must stay outside while the invalidation trial is pending at the JPO. In other words, judicial courts are unable to act as the first agency for the patent invalidation.

The JPO's exclusive authority on validity issues has its roots in the holding of an old prewar Supreme Court (Daishinin) decision in 1916 stating: "As far as the utility model was registered with the JPO's recognition that a registerable device or utility model was accomplished, its registered right should not be made devoid without concluding an invalidation trial, even if the current utility model is regarded as having been registered with the JPO's unawareness of grounds for invalidity."

On the other hand, making the validity judgment off limits for the courts had the adverse effect that when a patent has been awarded erroneously with invalidity grounds unnoticed, then the patent

may be used to sue for infringement, in particular, with no concurrent invalidation trial filed at the JPO. In such a case, the courts in charge of such infringement litigation were put into pains to create an apparent rationale for upholding the legal justice, and inevitably interpreted the patent scope narrowly. A few scholastic theories were proposed, such as the theory that such a patent is equivalent to free prior art, the theory that its patent scope is impossible to interpret, and the theory of the abuse of patent rights. In essence, the court in charge was supposed to dismiss the case resorting to an appropriate rationale before going up to the consideration on the merits.

This vexing judicial issue, which had been lingering for many years, has been resolved by the Kilby Supreme Court decision.

### **III. The Kilby Supreme Court Decision**

The Kilby Supreme Court decision of April 11, 2000 contains the following key passage: "If a patent contains 'an obvious reason for invalidity', a request for injunctive relief and damages based on that patent shall be denied as being 'an abuse of right', unless there is a special reason for not doing so."

Thence there has been some debate over the meaning of the terms "obviously" and "abuse of the right." The question is, what difference is there between "a reason for invalidity" (i.e. without the word "obvious") and "an obvious reason for invalidity"? The answer to this is that the term "obvious" indicates the degree of conviction possessed by the judges in charge after the review of the legal theories and the evidence submitted by the litigants, and more precisely this term indicates that the judges expect the same conclusion, should the case in question be considered by trial examiners of the JPO in an invalidation trial.

One decision by the Tokyo High Court in the wake of the Kilby Supreme Court decision added that the wording "obvious reason for invalidity" indicates that the court in charge is confident of using this wording when the court's impression is sufficient to recognize the finding noted above, but the court's confidence is not required to amount to such a level that anyone would recognize the grounds for invalidity as unquestionably obvious.

Further discussion to scrutinize the above problem is considered difficult. The Tokyo High Court handles both the review of invalidation trials from the JPO and the review of patent infringement litigation from the district court, and there is an interesting rumor that the Tokyo High Court judges make efforts until they feel that their review work has reached the same sufficiency in either case, though they do not use the word "obvious" in drafting the decision in the former case.

As has been noted above, before the Kilby Supreme Court decision opened the way for judicial courts including district courts (first tier courts) to judge autonomously the validity of patent rights, the "Abuse of the Right" theory was existent as one of the scholastic theories. Now it might be interesting to know how the term "the Abuse of the Right" was employed or introduced in the Kilby Supreme Court decision document. It is said that a female Chousakan (Justice aide) working for the Supreme Court with reputation of a leading edge took initiative to employ that term in drafting the decision document. The same term "abuse of the right" is also used in the Japanese

Civil Law, Article 1 wherein the third sub-article provides: Abuse of the right shall be prohibited. However, the significance of the term in the Civil Law differs from that of the Kilby Supreme Court decision in that the latter refers to the wielding of a substantially void right, whereas the former does not indicate such an application, but the Kilby case or wielding of a substantially void right would belong to the concept "fraud" by legal construction of the Civil Law.

Turning now to the substantial consequences of the Kilby Supreme Court decision, it should be a matter of common legal sense that it does not affect other intellectual property fields such as trademarks or designs, beyond the realm of patents. However, courts have started applying the holding of the Kilby Supreme Court decision rapidly and widely to trademark and design cases, and this trend now seems to be irreversible. It is to be added that in Japan, there is no doctrine equivalent to 'stare decisis' in the Common Law.

#### **IV. Survey on Lower Court Decisions in the Wake of the Kilby Supreme Court Decision**

A report by the Dispute Resolution Sub-Committee in the Intellectual Property Policy Division in the Council for Industrial Structure (an organization affiliated with the Ministry of Economy, Trade and Industry), published on Feb. 5, 2003, includes a JPO survey on the consequences of the Kilby Supreme Court decision for the period of 2 years and 7 months (or more precisely the period from April 11, 2000, date of the current Kilby decision, to Nov. 15, 2002). In 40% of the 270 court decisions on IP infringement litigation surveyed in this report, the defendants submitted the defense that the asserted right should be invalidated, arguing abuse of rights as in the Kilby Supreme Court decision.

Another survey uses data collected from the website of the Supreme Court. (By this publication service, Supreme Court decisions are published on the Internet on the day following the issue of the decision, and other lower court decisions are included therein when available. Text search of the decisions is available.) This other survey relies on the data for the period from April 12, 2000, the date following the Kilby decision, to April 17, 2003 searching for keywords such as "abuse of the right." The results of this survey are broken down into four laws, namely Patent, Utility Model (UM. This UM law is the old one which required an examination for the registration, now replaced by the new UM law which abolished the examination) , Design, and Trademark Law. In total, 75 cases were found in which the enforced rights were judged to be invalid. If these 75 cases are re-evaluated by counting one litigation case decision as two cases if it admitted two grounds for invalidity, then those 75 cases can be regarded as 79 cases. Below is the breakdown of these 79 cases:

Patents: 55 including 31 cases in which grounds for invalidity were found to be lying in the inventive step. UM: 13 cases. Design: 4 cases. Trademark: 7 cases

The number of cases in which the defendant's invalidity argument was successful was surprisingly large at 79 (75). One may well say that "A Tornado is Building Up in Japan's IP Litigation" as suggested in the title above, and many IP experts believe that this trend will continue.

It merits particular attention that 31 of the 55 patent cases were successful in showing lack of

inventive step. This is remarkable in view of the fact that to disprove inventive step ordinarily requires a combination of a plurality of prior art references, which is often a painstakingly difficult job. Thus, a number as high as 31 cases reflects how much Benrishi (Japanese patent attorneys) contributed to reach this large number.

The report by the Sub-Committee noted above includes a survey on consistency between outcomes from judicial court's decisions on grounds for invalidity and the JPO's decisions in invalidation trials for cases in which the invalidity argument was raised in court with the invalidation trial simultaneously filed in the JPO. The report shows a high consistency.

But what happens if the outcome of the judicial court's decision is different from the outcome of the JPO's decision in the invalidation trial? If the court holds an IP right to be valid (dismissing the invalidity argument) and orders an injunction, and thereafter the JPO decides that the patent is invalid, then the defendant (i.e. the alleged infringer) is admitted to request reiteration of the court proceedings for recovery. But in the converse situation where the court decides earlier on invalidity, and thereafter the JPO holds the patent to be valid, the reiteration is not admitted.

#### **V. Another Tornado-To-Be Has Emerged**

Readers should note that there is a unique provision in the Japanese Patent Law that is about to unleash another "tornado." This is the definition of inventions in Article 2 of the Japanese Patent Law, which reads: "An invention is a creation by technical ideas utilizing a law of nature." This definition stems from the work of the German lawyer Dr. Kohler (1849-1919). Thus, any patentable invention or device registerable as a UM should comply with this definition. It is interesting to note that even though this definition comes from Germany, neither the European Patent Law nor the German National Patent Law include this definition. Also U.S. Patent Law does not provide a definition of the term "invention."

In an infringement lawsuit involving an improved balance sheet for use in the financial business, registered under the old UM law, the Tokyo District Court admitted the defendant's argument that the contested UM does not comply with the definition of inventions and decided (Jan. 20, 2003) that there are grounds for invalidity of the registered UM in question (Registered UM No. 2077899) . This decision is considered to have great repercussions and may grow up to another tornado in the wake of the Kilby Supreme Court decision, since according to the same legal principle this poses the threat that more and more Business Model patents will be held invalid. The impact of this cannot be underestimated.

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