

PROPOSED REVISIONS TO JAPANESE PATENT LAW

With the arrival of the age of global competition, Japan must work to support the development of technological advances and keep open the taps to sources of new competitive power in order to sustain economic activity. Therefore, the adequate protection of the results of creative technological research must be able to be rewarded as quickly as possible and by convenient means so as to ensure the employment of such results and to promote new creative activity. In view thereof, the Japanese Patent Office is planning revisions to the Japanese Patent Law, especially with regard to (1) increasing the level of protection of rights such as patents (reconsideration of damage compensation system), (2) increasing the level of protection of creative designs, (3) quicker achievement of protection and (4) reductions of patent fees. The bill proposing the revisions has been introduced before the National Diet, and if passed, will be put into force on January 1, 1999.

1. RECONSIDERATION OF DAMAGE COMPENSATION SYSTEM

In Japan, it is often the case that the amount rewarded for damage compensation in intellectual property right infringement suits is only sufficient to cover what amounts to a licensing fee. Critics argue that the protection of intellectual property rights is therefore inadequate. If such a situation continues, companies may lose the incentive to support creative research and development due to the inability to recover funds to reinvest in research and development. Thus, in order to ensure that patentees are adequately compensated for damage due to acts of infringement, the formula for determining damage compensation amounts must be reconsidered to simplify the verification of the compensation amounts, and the fines for infringement by corporate entities must be raised to increase the deterrence to infringement.

While a report issued by the Industrial Property Council included many important revisions such as triple compensation, discovery and payment of attorney fees by the losing party in a lawsuit, the negotiations with the Legal Affairs Bureau ultimately failed, and only a portion was brought before the Diet.

(I) Partial Revisions of Special Rules for Damage Compensation

- (i) Simplification of Damage Compensation by Reconsideration of Formula (introduced as Japanese Patent Law, Article 102, Paragraph 1)
 - When a patent infringer has transferred infringing articles, the compensation amount may be calculated as the number of units transferred times the expected profit per unit had the patentee not been infringed. However, the amount may not exceed the actual expected income of the patentee, and if the patentee could not be expected to sell all or a portion of the number that was transferred, then an amount corresponding to that which could not have been sold shall be deducted.

- Although the payment of damages due to infringement (the profits that would have been expected had the infringement not occurred, i.e. lost profits) can be demanded under Article 709 of the Japanese Civil Law, it is difficult to prove the amount. Therefore, the current law does have rules such as to estimate the damages to be equal to the infringer's profits (Article 102, Paragraph 1), but it is often difficult to verify the profits of the infringer (in particular, it is unclear where to draw the line to discriminate damage having a direct cause-and-effect relationship). In order to resolve such problems, there have been a proposal to transfer the burden of proof of the amounts to be deducted from the total income gained by the infringement to the infringer (proposal A), a proposal to clarify that the infringer's profits in Article 102(I) are not pure profits but marginal profits (proposal A-2), a proposal to estimate that the patentee could have sold patented goods in a number equal to the number of infringing goods sold by the infringer (proposal B) and a proposal for estimating, when the patentee has been working the invention, that the patentee could have sold patented goods in a number equal to the number of infringing goods sold by the infringer within the limits of the ability of the working (proposal B-2). The bill that has been introduced this time is closest to proposal B-2. Critics of proposal B-2 argue from the stance of the patentee that the limitation to the working ability of the patentee is too restrictive because there are cases in which the patentee is not capable of expanding the working ability due to the presence of infringing goods in the market.
- (ii) Acknowledgement of Licensing Fee-Equivalent Amounts Considering Specific Circumstances
- The term “normal” is to be deleted from the phrase “amount equivalent to a normal licensing” in Article 102, Paragraph 2, which shall be renumbered as Paragraph 3.
 - When the profits of the infringer cannot be verified, compensatory damages are rewarded in an amount at least equivalent to a licensing fee. However, the old rule states that amount shall be equivalent to a “normal” licensing fee, and this has variously been interpreted to mean the actual fees when licensing to an affiliate company which is on friendly terms, the normal rate for licensing fees in the field, and the licensing fee for the case of using a state-owned patent. By deleting the term “normal” in the current revisions, the individual circumstances can be considered in order to determine the appropriate licensing fee when supposing that a license had been granted to the infringer, in order to compute the amount of damages under more suitable standards.
 - While a proposal to allow the demanding of lost profits even in the case of non-working of the invention if the patentee has working ability was considered, but was not introduced to the Diet.

(II) Reconsideration of Rules for Infringement Penalties

**(i) Introduction of Higher Penalties for Corporate Entities
(Japanese Patent Law, Article 201)**

- The upper limit for the amounts of fines to corporate entities in cases of patent, utility model and design infringement shall be raised to 150 million yen (patents) and 100 million yen (utility models and designs) (the current limits are 5 million yen for patents and 3 million yen for utility models and designs).

**(ii) Non-requirement of Formal Complaints
(Japanese Patent Law, Article 196)**

- The rules regarding the requirement of formal complaints in the cases of crimes of infringement of patents, utility models and designs shall be deleted.

**2. INCREASED PROTECTION FOR CREATIVE DESIGNS UNDER
DESIGN LAW REVISIONS**

In order to keep up with the increases in design developing ability and the trends toward product discrimination by means of characteristic designs of recent years in Japan, the necessary revisions such as increases in the standards for ease of creation as a registration requirement and introduction of protection for partial designs are planned in order to grant widespread and powerful protection to designs of high creativity.

**(I) Increases in Standards for Ease of Creation
(Japanese Design Law, Article 3)**

- The standard for judgment of ease of creation shall be raised from “commonly known (i.e. known to everyone) in Japan” to “publicly known (i.e. existing somewhere) internationally”, so as to induce a higher level of creative competition.

**(II) Introduction of Protection for Partial Designs and Patterns
(Japanese Design Law, Article 2)**

- Exceptional design creations for only a “part” of a product shall be entitled to protection under the Japanese Design Law. Creations of patterns will also be entitled to receive similar protection as one type of partial design.

**(III) Suitable Protection for System Designs, etc.
(Japanese Design Law, Article 8)**

- The range of protection shall be enlarged to include suitable protection of system designs for system kitchens, personal computer systems and the like, without requiring the registration requirements to be satisfied for the designs of the constituent products.

**(IV) Introduction of Related Design System
(Japanese Design Law, Article 10)**

- The old similar design system (wherein similar designs serve to demonstrate the range of similarity of the main design) will be abolished, and designs will be registered as related designs only when similar designs owned by the same party are filed on the same day. These related designs not only serve to confirm the range of similarity of the main design, but are also effective in themselves.

**3. ACHIEVEMENT OF QUICKER PROTECTION DUE TO REVISIONS
OF EXEMPTION LAW**

The examination periods for industrial property rights in Japan have yet to reach the progressive international standards, and quicker prosecution of trials for cancellation which are closely related to disputes concerning industrial property rights are also strongly demanded. In view of these circumstances, the necessary revisions shall be made in order to ensure the shortening of examination/trial periods for examination and trial proceedings relating to industrial property rights.

(I) Expansion of On-line Procedures

- In connection with the electronic procedures for patents and utility models which have been performed since 1990, on-line procedures by personal computer shall be started, and the filing of applications by magnetic disk shall be reconsidered (Exemption Law, Article 6)
- On-line procedures shall also be made possible for designs and trademarks (starting January 1, 2000).

**(II) Acceleration of Trials for Cancellation
(Japanese Patent Law, Article 131)**

- The acceleration of proceedings for trials for cancellation of patents and the like shall be ensured by not allowing changes in the gist of the reasons for the demand.

4. REDUCTIONS IN PATENT FEES

Since the current patent fees are heavy in the latter years when compared with international standards, the current progressive fee structure will be reconsidered in order to flatten out the patent fees for the tenth year and later with a view to reducing the burden on the patentee (the date of enactment shall be determined by ordinance within one month from the date of promulgation).

- The burden on patentees will be reduced by flattening out the patent fees for the tenth year and later which currently increase progressively (reduction of approximately 11.5 % in an average case).

5. OTHER REVISIONS

- Exchange of Priority Document Data (Japanese Patent Law, Article 43) → Due to the exchange of priority document data relating to patents with foreign patent offices, applicants who have filed applications in countries with which data exchange is possible will be waived of the requirement to submit priority documents.
- Deletion of Title of Invention (Japanese Patent Law, Article 36) → The Title of the Invention shall be deleted from the items required to be listed in the application documents filed for patent applications, and the items which are required shall be simplified.
- In connection with the relationship between prior/latter filings, Article 39 of the Japanese Patent Law shall be revised so that applications for which abandonment or final rejection have been finalized shall be regarded as having never been filed (cannot be considered to be prior art).
- The patent fees for patents and the like which are shared by the state and a non-government civil entity shall only be required to be paid by that entity in an amount corresponding to the share held by the entity (to be enacted April 1, 1999).
- Upon registration of such a right, a trademark registration certificate or a protective trademark registration certificate shall be issued (Japanese Trademark Law, Article 71^{bis}).