Japan’s National IP Strategy
and IP Enforcement Revisions:
Improvements in Evidence Taking and Damages

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I. Toshiko Takenaka

1. Introduction


Today’s seminar consists of three parts. In the first part, I will discuss the background which led to major revisions of IP enforcement procedures and calculation of damages. The second part will focus on improvements in evidence taking through revisions of patent law and civil procedure law, particularly focusing on the scope of document production order and in-camera procedure. My colleague, Prof. Takabayashi, will speak on the second part. In the last part, I will discuss major revisions in calculating IP infringement damages. In our presentation, we mainly discuss patent enforcement and patent law revisions. However, similar revisions were introduced to copyright, trademark and unfair competition laws. Most of the improvements in patent enforcement we are going to discuss were introduced to enforcement of all IP rights in Japan.

2. National IP Strategy

In the 1980s, Japan’s economy was at its peak and prevailed over major western countries to be ranked at the top ten in international competitiveness. Such competitiveness was based on the low labor costs of well-trained Japanese workers and manufacturing improvements on technologies imported from U.S. and European countries. Facing competition from new markets such as Korea and China, Japan had suffered a deep recession since the 1990s. Inspired by U.S. legislation in the 1980s and 1990s, Japan’s Ministry of Economy, Trade and Industry (METI) and its agency, the Japan Patent Office (JPO) adopted a pro-patent initiative to recover Japanese economy from the recession and improve the international competitiveness.
This initiative was led by a key person, Mr. Hisamitsu Arai who was the JPO Commissioner. In 1998, Mr. Arai organized a committee and published a report recommending overhaul of Japan’s IP system in securing quick and strong IP protection. His efforts led to an adoption of Japan’s national strategy to become an IP based nation.

Responding to the recommendation, the JPO introduced two major revisions in IP enforcement. The 1998 revision aims to secure patentees adequate compensation for patent infringement damages and thus adopted a U.S. case law doctrine to facilitate patentees to establish causation between lost profits and infringement acts. The 1999 revision aims to secure patentees right of access to necessary evidence for establishing infringement liability and damage calculation by expanding the scope of document production order and introducing in-camera procedure. To protect evidence disclosed to the court through in-camera procedure, civil procedure law was further revised in 2004. We will discuss these revisions in more detail with respect to the following slides.

There are two more important developments in Japan’s IP enforcement. In 2003, Japan’s civil procedure law was revised to give exclusive jurisdiction over patent and technology related IP cases such as computer program copyright cases to Tokyo and Osaka District Courts. The revision also concentrated appeals of these IP cases to Tokyo High Court. Although this revision made Tokyo High Court, a de facto IP special court, METI was not satisfied. To signify Japan’s commitment to IP protection, Japan created its IP High Court in 2005. The IP High Court is semi-independent from Tokyo High Court because it has its own administrative power and secretariat although the court officially remains as one branch of the Tokyo High Court. Japan’s IP High Court was created by modeling after U.S. Court of Appeals for the Federal Circuit. In U.S. all patent appeals are heard by the Federal Circuit. However, the IP High Court has broader IP jurisdiction than the Federal Circuit because it has exclusive jurisdiction over non-patent IP cases involving technologies but is a more IP specialized court than the Federal Circuit because the Federal Circuit has jurisdiction over non-IP cases such as disputes over government contracts and status of government employees.

**3. Comparison with European Countries**

Significance of intellectual assets is uniformly recognized in developed countries. U.S. became keenly aware of the significance when it competed with Japan in the 1980s. I found out from our Italian visiting scholar that Europeans have adopted a policy similar to Japan’s national strategy in Lisbon Agenda in promoting creation of intellectual property through academic-industry collaborations. In adopting the IP national policy, “a cycle of intellectual creation” has become a key word for Japan’s METI and JPO. Intellectual property was recognized as a driving force for activating the cycle. Europeans adopted a similar slogan “knowledge triangle” to increase intellectual assets.

Currently, European countries are undergoing overhaul of IP enforcement system through the IP Enforcement Directives and engaging in discussions to create a uniform system to establish patent specialized courts through community patent system and European Patent Litigation Agreements. Particularly,
Section 2 and Section 6 of the IP Enforcement Directive dealing with evidence and damages are closely related to changes brought to Japanese IP enforcement system through 1998 and 1999 revisions. Therefore, our presentation focuses on improvements of evidence taking and calculation of damages resulting from these revisions.

II. Ryu Takabayashi

1. Introduction

Good evening. I am Ryu Takabayashi from Waseda University. Thank you for the opportunity to speak to you here today.

As an introduction, I would like to explain briefly about the history of the origins of the Civil Procedure Law in Japan. Japan was reformed in 1867 and changed from the feudalism to the modern state. The new government was called Meiji government. Even before the establishment of Meiji government in Edo Era, there was a developed civil procedure system in Japan. We still see the trials in those days on TV dramas or in novels, and we call the civil litigation judgment which everyone agrees is just and satisfactory an “O-Oka judgment,” named after the famous samurai magistrate, Echizen O-OKa. However, the Meiji government introduced a new civil procedure system originated from the western countries. This new system was totally unrelated to the system that we had since the Edo era. It was put into effect in 1891. At that time, Meiji government referred to the Civil Procedure Law in Germany, so the Civil Procedure Law in Japan had started with the translation of the German Civil Procedure Law. Having gone through great changes in global dynamics, especially after World War II, Japan has been greatly influenced by the United States in many aspects, and its civil procedure system has changed as well.

Today, it is such a pleasure, as a Japanese, to have an opportunity to speak to you here in Germany, the mother country of our Civil Procedure Law, regarding Civil Procedure Law in Japan and the changes in its enforcement. Also, I would be extremely honored if my remarks to you today regarding the Japanese experience might be of some small help to you. I think that’s enough for the introduction and I would like to start.

I will cover the importance and the difficulty of the collection and inspection of the evidence containing confidential information. This topic is mostly discussed in the Intellectual Property area, especially, in Patent Law, so, I would like to focus on Patent Law and the Civil Procedure Law today.

First of all, I would like to talk about orders to produce documents and orders to produce objects to be inspected. There are three issues in document production order. The first one is an obligation to produce documents, the second is the distribution of burden of proof, and the third is the in-camera procedure.
2. Obligation to Produce Documents

Article 220 of the Civil Procedure Law, like the German Civil Procedure Law from which it was derived, stated that there is an obligation to produce documents. This article used to limit the obligation to the following three categories of documents:

1) Documents that a party have cited in the lawsuit;
2) Documents that the possessor may be required to deliver or allow to be inspected as required by another law;
3) Documents that have been prepared with regard to the legal relationships between the person possessing them and the petitioner of the order that the documents be produced.

This document production obligation applies similarly to the obligation to produce objects for inspection at the time of inspection. Around 1978, not too long after I became a judge, many judges stretched the third category, and ordered the production of charts that medical doctors possessed. Several times, I too visited hospitals and had them produce documents in order to preserve the evidence before examinations. Later on, in 1996, the Civil Procedure Law was amended and the obligation to produce documents became each citizen's general obligation and not limited to the three categories that I mentioned. However, this obligation has broad exceptions. One of the exceptions is documents containing matters concerning technical or professional secrets. This confidential information is the same as trade secret as defined in the Unfair Competition Prevention Law, meaning useful technical or business information that is kept secret and that is not publicly known (Article 2 Paragraph 6 of Unfair Competition Prevention Law).

The Patent Law also has a rule regarding Document Production Orders. Before, use of this rule was limited to cases in which the damages caused by patent infringement were to be proved. In Patent Law, a party was not permitted to petition for a document production order in order to prove infringement. However, contrary to the Civil Procedure Law, the Patent Law did not limit the obligation to produce documents to the three previously mentioned categories. The court could order production of documents when it recognized that it was necessary, and the adverse party could not refuse this order unless there was a reasonable ground to do so. So, the provision was very general and permitted the court to exercise broad discretion. The amendments to the Patent Law in 1999 enabled the use of document production orders in Patent Law, not only for purposes of proving damages, but also for purposes of proving infringement. At that time, the obligation to produce documents in the Civil Procedure Law became the general obligation of citizens, so the discrepancies between the Civil Procedure Law and the Patent Law have become very small. However, the Patent Law still does not necessarily allow a party to refuse the document production order on the grounds that the documents contain matters concerning technical or professional secrets, while the Civil Procedure Law does. The Patent Law still permits courts to exercise broad discretion, the same as before the amendments.
3. Distribution of Burden of Proof

Next thing I would like to talk about regarding document production order is distribution of burden of proof.

It needs to be noted that the Civil Procedure Law in Japan assigns the burden of proof very rigidly, so the parties cannot seek an order to produce documents as a means of searching for evidence. The party who seeks the order to produce a document needs to specify the title of the document, its purpose, the person possessing the document, the fact to be proven by the document, and the reason for the obligation to produce the document. However, as the person who seeks the order does not have the documents which are sought, it may be difficult to specify the title and purpose of the document. In that case, it will be sufficient if the person seeking the order specifies only the information that will distinguish the document at issue from other documents, and the court may order the person possessing the document to specify the title of the document and to produce it. Article 222 of Civil Procedure Law. In reality, at the point where the court has some impression of which side will win the litigation, it often orders the other party to produce the documents at issue. Thus, it should be kept in mind that this is totally different from the pre-trial evidence collecting discovery system used in the United States.

As we have seen, the allocation of the burden of proof in our civil procedure is very rigid. Especially in patent infringement cases, it is often difficult for the plaintiff to establish which of the defendant’s products are infringing, so in the amendments to the Patent Law in 1999, a new rule (Article 104-2) was established:

…if, in good faith, the plaintiff claims that he has specified the defendant’s products that compose an act of infringement, then the defendant who wishes to deny the claim shall clarify the specific conditions of his/her products…

Some people say that this rule has transferred the burden of proof of the subject matter of the trial to the plaintiff, but that is not correct. This provision should be interpreted as indicating a warning that the parties should act under the doctrine of good faith even during the trial proceedings.

4. In-Camera Procedures

Finally, the third issue regarding document production order is the in-camera procedure.

In 1996, the Civil Procedure Law changed the obligation to produce documents to a general obligation of each citizen, and permitted the person possessing the documents to refuse to produce them only if they contain trade secrets and the like. With this change, procedures to determine whether or not the production of documents at issue may be refused became necessary. As a result, an in-camera procedure was adopted (Article 223, paragraph 6 of Civil Procedure Law). In this article, only the court may order the person possessing the documents in question to produce them, and no one else may request their disclo-
sure. Therefore, the judge determines whether or not the documents contain a trade secret. And if the
documents or a portion of them is a trade secret, the court may not order the production of that portion
of the document, and the production order may be issued only to that portion that is not a trade secret.

Also, the amendments to the Patent Law in 1999 introduced the in-camera procedure (Article 105 Para-
graph 2 of the Patent Law) to determine whether there are reasonable grounds for the person possessing
the documents to refuse to produce them. In the in-camera procedure under the Patent Law, the court
may order the parties to produce documents and may disclose them to the parties, their representatives,
employees, and other agents, and ask them for their opinions. This is not to determine whether or not the
document at issue is a trade secret, but to determine whether the person possessing the document has
reasonable grounds to refuse to produce the document. Thus, the people who are involved in the case,
and not only the court, are able see the document at issue in this in-camera procedure, so a protective
order, a system to prevent the people who have seen the document from disclosing the information to
others without permission, is necessary. The amendments to the Patent Law in 2004 introduced such a
system. I will explain about this later. By the way, this change was also made to the Unfair Competition
Prevention Law.

5. Ban on open examination and on inspection of records

Before I talk about protective orders, I will explain other procedures to prevent the disclosure of informa-
tion such as trade secrets.

Under the Constitution, a trial needs to be open to the public, and a trial may be conducted privately only
if an open trial could be dangerous to public order or morals. And there was a debate as to whether a case
in which a trade secret is the subject matter of examination is an exception to the principle under the
Constitution of an open trial.

As a temporary solution, amendments to the Civil Procedure Law in 1996 introduced a system under
which a party may ask the court to ban the inspection of the record by people other than the parties (Ar-
ticle 92 of Civil Procedure Law). However, in IP litigations, the other party to the dispute is usually a
competitor, and because they, as a party to the dispute can usually inspect and copy the court records, it
is difficult to keep a secret with only this system.

The amendments to the Patent Law in 2004 introduced a system in patent infringement litigation under
which the court may be closed from access to the public when, in determining whether or not there is
infringement, it is necessary for the parties or a witness to make a statement regarding a trade secret
(Article 105-7 of the Patent Law). Upon request from a party, people other than the parties to the litiga-
tion may be prohibited from inspecting the records of this closed examination in the manner that I have
explained earlier.

It was very revolutionary to establish an exception to the Constitutional open trial principle for reasons
relating to a trade secret. However, in the Patent Law, its use is limited to the determination of the existence of an infringement, and it cannot be used to prove the amount of damages. Also, it is almost always unnecessary to inspect the parties or witnesses to determine the existence of the infringement of a patent. Therefore, there have been no cases reported where open examinations in court were closed to the public.

The same system was established in Article 13 of the Unfair Competition Prevention Law. Because this is exactly the type of case where trade secret infringement is determined, it is valuable for the court to examine witnesses regarding the contents of a trade secret by means of a closed system for such examination.

6. Protective Orders

Now let's move on to the protective order.

In the in-camera procedure about which I have just talked about, even if the documents that the parties inspected include confidential information, sometimes it is necessary to examine such evidence in the litigation. In such cases, we have a system in which the court prohibits the inspecting party (its agents and employees) and its counsel in the litigation from using the information against the other party for purposes other than proceeding in the litigation. This system was introduced in amendments to the Patent Law in 2004.

Also, the Unfair Competition Prevention Law adopted the same system. When a protective order has been violated and a complaint is filed, the person who has failed to comply with the protective order will be punished by imprisonment for a term not exceeding five years or a fine not exceeding 5,000,000 yen.

I will not explain the details of the protective order procedures here, but I would like to point out how to determine what trade secrets must be the subject of a protective order. Trade secrets that are subject to a protective order must be in the contents of the briefs or the evidence. (Article 105-4, paragraph 1, subparagraph 1). The trade secret itself need not be described, but it is preferable to refer to the trade secret by citing specifically to the location in the briefs or documents. This is because, if the trade secret itself is described in writing, there is a risk that it will be disclosed to non-parties when a written order is served to the relevant parties. Because we specify the trade secret by citing the locations formally in the briefs or documents, we prohibit people other than the parties from inspecting the briefs or compiled documents, and because the parties have an obligation of confidentiality, we can avoid the risk that the confidential information will be disclosed to the outside.

7. Conclusion

It has been 13 years since I transferred to the academic field from the judiciary, so it has been a long time since I actually heard a case. I have talked today about trial procedure, and not legal theory, but, my re-
marks have not been from my experience trying cases, but from reference to articles and scholarly works. I fear that my remarks may not have been as interesting as you may have expected. If any of my remarks were unclear, I would like to respond to you in the question and answer session. Thank you for listening.

III. Toshiko Takenaka

1. Introduction

EU IP Enforcement Directive makes it clear that IP owners are entitled to damages appropriate to the actual damages resulting from infringement if the infringer knowingly or with reasonable ground to know, engaged in an infringing activity. This policy of adequate compensation through damages was not expressly provided in Japanese patent law. When the 1997 Report was published, METI was alarmed by the huge difference in damages awarded by Japanese and U.S. courts.

2. Tort and Patent Theories and Policies

Where did this huge difference result from? Focusing on tort theory, Japan and U.S. adopt a similar theoretical framework. In determining the scope of damages, both Japanese and U.S. courts use a “but for” test to establish the cause in fact. These courts then use a “reasonable foreseeability” test to further limit the scope to the legal cause or adequate cause. The only difference is that U.S. courts’ analysis includes two distinct steps for applying the two tests because a jury decides the cause in fact and a judge decides the legal cause.

There is no significant difference in measurements of infringement damages between Japan and U.S. Both courts adopt lost profits and reasonable royalty to measure damages resulting from patent infringement. Like Germany, Japanese courts have a third option, infringer's profits. U.S. used to use infringer's profits as a measurement of damages but removed it from patent infringement in 1940s although infringer's profits are still applicable for calculating copyright and trademark infringement damages.

However, there is a significant difference in the function of damages under the general tort theory. Under Japanese tort law, like German law, tort damages function purely to restore the tort victim to the condition he or she would have been in but for the tort. Thus, there is no distinction between tort damages and breach of contract damages. In contrast, Common Law System encourages the participation of individuals in enforcing the law. Following the common law tradition, U.S. patent statute provides both compensatory and punitive damages. To encourage patent enforcement, U.S. compensatory damages focus on the adequate compensation. Tort damages are distinguished from contract damages with respect to the burden of proof to prevent a wrongdoer in benefiting from the difficulty of proving causation between the tortious act and damages.

There is also a significant difference in patent policies. The language of Japanese Patent Law Art. 102
indicates sympathy for innocent infringers than patentees who are victims of tort. Article 102 gives Japanese courts discretion to limit damages to an amount equal to a reasonable royalty even if actual amount of damages calculated in the form of lost profits or infringer's profits are higher unless the infringer knowingly or with gross negligence engaged in infringement. In other words, the reasonable royalty functions as the ceiling of damages for innocent infringer. This practice is a stark contrast to the term used in U.S. patent statute and EU IP Enforcement Directive. In contrast, Section 284 of U.S. patent statute makes it clear that the goal of patent infringement damages is to adequately compensate harms suffered by the patentee. Reflecting this policy, US courts interpret the Section expansively and set no ceiling while guaranteeing a reasonable royalty as the minimum compensation.


To secure adequate compensation of actual damages, US courts prefer to compensate damages in the form of lost profits rather than a reasonable royalty and developed multiple tests to affirm causation between lost profits and infringement. Among these positive tests, U.S. courts most frequently relied upon the Panduit test. If patentees are able to establish these four factors, causation is inferred. The factors include (1) demand for the patented product in the market; (2) the patentee's capacity to meet the demand; (3) absence of a non-infringing acceptable substitute; and (4) profits that the patentee would have received but for infringement. Among the four factors, parties most frequently dispute whether a substitute asserted by the infringer is acceptable. However, U.S. courts often reject to find a substitute acceptable if the substitute does not produce an advantage of the patented invention. The burden then shifts to the infringer to rebut the inference. Infringers can introduce evidence that one of these factors was not met or provide evidence that the patentee could not have sold all products the infringers have sold.

As indicated in the table below, more than half of U.S. patentees claim damages in the form of lost profits. Recently, U.S. courts are awarding lost profits less frequently. I do not know a clear reason but it might have something to do with patentees who do not make or sell any products but only license their patents.
In contrast, Japanese courts developed multiple tests to negate causation for lost profits. For example, if the patentee did not exploit the invention by himself even if he sells products competing with infringing products, Japanese courts would reject his claim of lost profits. Presence of a substitute in the market also negated causation for lost profits. Accordingly, Japanese patentees seldom claim damages in the form of lost profits. However, I understand from a paper authored by Dr. Meier-Beck that German courts also seldom award lost profits.

These differences in court practice resulted in a significant difference in damages awarded by Japanese and U.S. courts. According to the statistics cited by the JPO to justify the 1998 revision, the average award by US courts was 200 times more than that of Japanese courts. Even taking into account the market size as well as inclusion of punitive damages, the difference was too significant to be justified. In addition to the infrequent award of lost profits, damages in the form of a reasonable royalty were kept very low. If the patentee already granted licenses, courts adopted the royalty of prior licenses. However, if such royalty was higher than the industry standard or royalty rates published by the JPO to license government owned patents, courts sometime reduced the prior royalty to the industry standard or the JPO published rates. Accordingly, legally negotiated royalty functions more like the maximum royalty. This is because Article 102 expressly limits damages to the amount the patentee ordinarily would have received for allowing a third party to exploit the patented invention.


By inserting Paragraph 1 in Article 102, the 1998 Patent Law Revision introduced a presumption of causation for lost profits by adopting the Panduit test. The presumption aimed to reduce patentee's burden of proof on causation for recovering damages in the form of lost profits. The revision also removed the term “ordinarily” from Paragraph 4 of Article 102, the provision to calculate damages in the form of a reasonable royalty. This removal aims to encourage courts to award an amount higher than the legally negotiated and agreed upon royalty.

Under the new Paragraph 1 of Art. 102, patentees can claim lost profits by showing three factors: (1) the number of products sold by infringers; (2) their own net profit-per-product that the patentee would have sold but for infringement and (3) capacity to make and sell the number of products sold by infringer. These factors are the second and fourth factors of the Panduit test. The most controversial factor of non-infringing acceptable substitute is removed from the elements for the presumption of causation between infringement act and lost profits.

Once these three factors are established, the burden shifts to infringers. Infringers can reduce the lost profits established through the presumption by showing the number of products that the patentee could not have sold. For example, infringers may introduce evidence of the difference between infringing products and patentee's products and argue that only some of the products sold by infringers would have been sold by the patentee. In short, factors used for the negative tests of causation under the pre-revision patent law have become factors to reduce the amount calculated through the presumption.
Removal of the term “ordinarily” encourages Japanese courts to calculate a reasonable royalty on a case-by-case basis. Instead of relying on industry standards, courts now take account of a variety of factors involved in each case. In some cases, Japanese courts obviously awarded a royalty higher than a legally negotiated royalty.

However, the revision did not remove the courts’ discretion to reduce the actual damages for innocent infringers if the amount is higher than a reasonable royalty. Therefore, Japanese Patent Law does not expressly guarantee a full compensation of actual damages or a reasonable royalty as the minimum compensation. In U.S., courts may split the award between lost profits and reasonable royalty if the patentee fails to establish causation for all products sold by the infringer. This is because US patent law expressly guarantees compensation of reasonable royalty as the minimum compensation. Without a clear statutory language, Japanese courts are divided whether to award a reasonable royalty to the number of products sold by the infringer which the patentee failed to establish causation for lost profits.

Infringer’s profits were not revised and remained as they were. However, the revision of other paragraphs in the same article introduced a lot of uncertainty in interpretation and application of infringer’s profits. Codification of the Panduit test removed the requirement that the patentee must exploit the patented invention. The patentee can claim lost profits as long as he makes or sells a product competing with the infringing product. It is not clear whether the requirement is removed from a claim of infringer’s profits.

Since infringer’s profits are used to measure damages, if the infringer was able to establish actual damages, courts will reduce the infringer’s profits. Infringer can introduce multiple factors to reduce the amount of infringer’s profit. These factors are similar to those that reduce the presumed amount of lost profits, such as the presence of non-infringing acceptable substitute in the market.

5. Impact of Revision

According to statistics prepared by Japan’s Institute of Intellectual Property, the average damage award in the post revision period (1999-2004) has become ten times more than that of the pre-revision period (1989-1994). However, the number of cases that the courts have awarded damages over both periods is relatively small, 36 cases for the pre-revision period and 92 cases for the post-revision period. It is not clear whether the average properly reflects the impact of the revision. Although Japanese courts started to award lost profits more frequently than the pre-revision practice, Japanese courts do not award lost profits as frequently as U.S. courts. A possible reason is that Japanese patentees are reluctant to disclose net profits per product. Another possible reason is that Japanese patentees are unable to recover a reasonable royalty for products which patentees failed to establish causation.
The graph below also confirms the marginal impact of the 1998 revision. Reflecting the legislative intent, Japanese judges awarded large damages in the year the revision was discussed and introduced. However, the average awards are going down gradually and returned to the pre-revision state.

A statistic shows big damages available in U.S. Courts. The table below lists large damages awarded by U.S. courts. In the graph below, the median annual damages awarded in U.S. courts have remained fairly stable over the last 13 years. The median was $3.9 million from 1995 through 2000, and $3.8 million from 2001 through 2007. Despite some of the impact of the 1998 revision, the huge difference in damage awards between Japanese and U.S. courts has remained.
6. Conclusion

However, that is not so bad because Japanese damages remain as more in line with Germany and many other European countries. Through implementation of the IP Enforcement Directives, German damage awards are also expected to increase. However, the increase seems to remain insubstantial because no significant change was introduced to facilitate establishing causation for claiming lost profits. Since Article 13(a) of the IP Enforcement Directive does not make clear a preference between lost profits and infringer’s profits, with the change of profit calculation in favor for patentees, I was advised that German patentees will more frequently rely on infringer’s profit, rather than lost profits. Lost profits may remain as unpopular measurement unless German courts are willing to introduce a mechanism to reduce patentee’s burden of proof to establish causation and protect financial information necessary to show net profits.

Article 13(b) made it clear that patentees are at least compensated with the amount which patentee would have received if the infringer had requested authorization to use the IP right. The article does not use a term “a willing licensee” used in the license analogy used by German courts to calculate a reasonable
royalty. Instead, it uses a term “the infringer.” Thus, one may interpret the language that the amount in Article 13(b) is higher than a reasonable royalty resulting from the license analogy, particularly if the infringer is a competitor and the patentee did not give any license to competitors. Further, one can interpret this provision as guaranteeing such amount as the minimum compensation. I was advised that current German case law does not allow a split award of lost profits and reasonable royalty. The clear language of minimum compensation may lead to a change of German case law.

I hope that these Japanese experiences will be helpful for interpretation and application of EU IP Enforcement Directives. We are happy to answer any question and also very much look forward to hearing your comments on our presentation. Vielen Dank!

IV. Q & A Session

Moderator: Thank you very much, Professors Takenaka and Takabayashi for this very informative, very intense lecture. I have to also thank you again for the time schedule. It fits perfectly, as always in Japan. When I first saw your presentation slides, I was wondering if we can make it within one hour, but as you can see, it fits perfectly. Thank you very much indeed.

I now open up the question session. I think there are a lot of questions out there for you.

Participant 1: First of all, I would like to thank you for your excellent lectures. It was just perfect. We got a lot of information. So I hesitate now to put the first question to you because I have a lot of questions, but I will limit it to one so that the audience also has the chance to put questions to you.

So, my first question is addressed to Professor Takabayashi about the in-camera proceedings. That is a very hot topic nowadays in Germany because in our Patent Act and also in the other IP acts we leave everything to the judges: how to do it and what to do. The result is that we have different decisions as to what can be done in-camera and what cannot be done. So one question which is discussed nowadays – a lot – is about whether it is a secret or not a secret. The lawyers of the plaintiff or claimant can be involved, especially of course the patent attorneys, if they sign a secrecy agreement with the court. I have to admit I am in favor that the lawyers and patent attorneys can be involved in the discussion to decide if the information requested is really a secret or not, but there are judges even from the Federal Supreme Court who doubt that the lawyers and patent attorneys should be involved. So, my question is: what is the view in Japan? Thank you.

Prof. Takabayashi: Under Civil Procedure Law, only judges can look at the document to decide whether it includes trade secrets. Judges allow parties to refuse to produce information if they find trade secrets in the requested information. In contrast, under Patent Law, judges order parties to produce information even if the information includes trade secrets because the information is protected in the in-camera procedure. Unlike Civil Procedure Law, not only judges but also lawyers and even parties can look at the
information which might include trade secrets. Because of the risk of misappropriation of proprietary information, Patent Law imposes a sanction to the parties, lawyers and patent attorneys if they disclose such information. Moreover, because the sanction is available, it is very unlikely that the parties, lawyers and patent attorneys will disclose the information. Therefore I do not see any problem even if parties and lawyers are involved in determination of secrecy.

Prof. Takenaka: Can parties request information for establishing liability as well as information for damage calculation?

Prof. Takabayashi: Yes. Under Japanese Patent law, patentees can request both information for establishing liability and calculating damages through a document production order. The in-camera procedure protects information for liability and damages if the information includes trade secrets. However, under Japanese Patent Law, Japanese courts can hold a private hearing which is closed to the public only for examining evidence for establishing liability. They have to hold a public hearing for examining evidence for damage calculation. This results in disclosure of proprietary information even if the information is protected by the in-camera procedure. To protect the proprietary information, it is likely that courts will allow a party to refuse to produce financial information for damage calculation if the information includes trade secrets. So far Japanese courts have issued protective orders only in few cases. It is not clear at this moment what kind of practice Japanese courts would adopt for protecting proprietary information for damage calculation.

Participant 1: Just one more question. You said that the parties can also get access to the information to determine if there is a trade secret. The opposing party may be a competitor. He gets the information. Of course he cannot disclose it to a third party because of the sanction, but the party himself – the competitor – has the information. He now has the knowledge, he has the know-how maybe. How can you make sanctions work and prevent the competitor from using the information?

Prof. Takabayashi: It is a totally up to the judge whether to discuss information to the parties. Judges have discretion to decide to whom the information should be disclosed. So, at the maximum, information is disclosed to not only lawyers but also the parties. However, judges may also decide that the information should be disclosed only to lawyers. However, based on my experience, opposing parties’ employees often refuse to be involved in inspection because there will be a risk in the future that they would be accused for misappropriation of the information they have received.

Participant 2: I am a patent attorney in Munich and I would like to stick to these points which you have just discussed: just one short follow-up question. I think here in Germany one common procedure is to order a sworn expert to look at the allegedly infringing product or procedure. I am wondering whether this is also a common approach in Japan. Do Japanese courts appoint an independent court-ordered expert who is an expert in the technical field of the patented invention and who is sworn so that he is unable to disclose the knowledge that he gets through investigating and inspecting the product?
**Prof. Takabayashi:** In Japan such procedure is not available and I have never seen such a procedure adopted. A third party who is an expert has never been used to decide if the information includes trade secrets. Only parties, lawyers and judges can look at the information.

**Participant 2:** Thanks. Another question about the calculation of damages. That was very interesting too. If I understood it correctly, in Japan you can make a mixture of calculation, as you explained with respect to Japanese cases, 500 items for damages in the form of royalties and 500 items for damages in the form of lost profits. I think that is very reasonable to make a decision very much in favor of the right owner.

As you know, in Germany – and you mentioned it – it is not the case. In Germany we still have to make a decision: either license analogy or lost profits and so on. I think we want to try to award a mixture of damages – when one of my colleagues started to practice as a lawyer, he opposed this German system and tried to convince a German judge. Although his argument was very good, the court in Düsseldorf said “We never did that and we will not do it.” The court may change their mind because of the new IP enforcement directive the wording of which is very open – and now learning that other countries changed their systems. Even Japan took over the German system, I think Japan is now far ahead of the German system. We should follow your system for more justice for the right owner to get most out of his right. What do you think will be the development in the future in Japan? Will the mixture of damage calculation be more frequently claimed by the plaintiff and awarded by the courts? Or is the mixture more or less an exception and thus mere theory?

**Prof. Takenaka:** First of all, as I have mentioned in my presentation, the courts are divided as well as the legal scholars. Therefore depending on the situation courts may or may not allow mix award of lost profits and reasonable royalty. I am advocating for a mix award. In contrast, Prof. Takabayashi disagrees with me and he does not think that courts should allow a mix award. Views are divided mainly because Japanese law did not make it clear that reasonable royalty is the minimum compensation; however, in the United States patent owners are always guaranteed at least compensation by a reasonable royalty. Even if the patentee would not have sold the products but for infringement, the infringer used his technology and sold the products without authority, and therefore, the patentee should be entitled to recover a reasonable royalty with respect to the unauthorized sales of the products that the patentee would not have sold. Accordingly the Federal Circuit made it clear that at least a reasonable royalty is guaranteed. The IP enforcement directive also made it clear that patentees are entitled at least the amount of royalties or fees which would have been due if that infringer had requested authorization to use the intellectual property right in question. This amount is not the amount of royalties under the license analogy between hypothetical willing licensees and licensors. I had a chance to speak with a German judge and asked this question. He said that it is an interesting question and he might answer the question differently after the directive. Therefore, like the current situation in Japan – it is still in the process of development in Germany. In Japan, there are scholars like Professor Takabayashi who do not want to give reasonable royalties for the products that the patentee failed to establish causation for lost profits.
Prof. Takabayashi: I disagree with Prof. Takenaka with respect to a mix award. When a reasonable royalty is calculated, a variety of factors are taken into account, one of such factors is the products that the patentee could not have sold. Thus, once a reasonable royalty is calculated, it is not necessary to award lost profits in addition to the reasonable royalty. For calculating lost profits, Article 102 allows infringers to show factors to reduce the presumed amount under the Panduit test. Because the reduced amount would not have been sold by the patentee, it should not be recoverable as a reasonable royalty. For example, the reduced amount reflects the products which were sold not because of the patented invention but because of the brand name of the infringer. Since the patented invention did not contribute to the sales of the products, the patentee did not suffer any damage. Therefore, it is not necessary for courts to award a reasonable royalty in addition to the lost profits because the products that the infringer sold but the patentee could not have sold are already taken into account.

Moderator: So, any more questions? Last chance. Yes, please.

Participant 3: I have one question that might be slightly off the topic, but I am really interested in the privilege of the innocent infringer under Japanese law. My question would be, first, what is the test to be an innocent infringer? And secondly, is this privilege frequently abused by infringers?

Prof. Takenaka: The statute makes it clear that innocent infringers are those infringers who engaged in infringement activities not willfully or not with gross negligence. However, Japanese courts seldom reduce the amount to exercise discretion even before the 1998 revision. There have been very few cases. Courts sometimes award no damages for lack of evidence too. Prof. Takabayashi has a different view with respect to the courts’ discretion.

Prof. Takabayashi: I published a patent law textbook. In that book, I proposed that the discretion should be removed. We share the same opinion on the courts’ discretion. Only in three cases Japanese courts have exercised the discretion. I believe that in all these three cases courts made a mistake – erroneously calculated the damages. Because these three cases were incorrectly decided, in that sense Japanese courts never applied the discretion. Therefore, the provision for the discretion should be removed. I do not know why the Japan Patent Office kept the provision when Article 102 was revised in 1998.

Participant 4: I am a patent attorney. I have a rather general question. How would you evaluate the general influence of the American system or the German system on the Japanese legal system which was derived from the German system? There may be two different avenues here, either one direction or the other. So is there somehow a tendency – how much either system still has an influence on that the Japanese legal system. General question – related lost profits or damages in general. Thank you.

Prof. Takenaka: As Professor Takabayashi pointed out, Japanese intellectual property law, particularly patent law, is based on German law. However, Japanese law recently had a lot of influence from the United States, mainly because more and more lawyers as well as judges study in the United States. It is unfortunate that German universities do not give courses in English. Information on German patent law
are available only German, – for example, court decisions are published only in German. For Japanese judges it is very difficult to understand German decisions. Japanese judges were used to being educated in this country, so therefore at least they could read German decisions, but the number of judges who are studying in Germany is decreasing. However, we have some judges who are still active and were educated in this country. Their decisions such as those authored by Judge Mimura indicate a strong German influence. But other judges, like Judge Shitara, who visited Judge Rader’s chambers in the U.S. Court of Appeals for the Federal Circuit and many other judges who were invited to the United States and gave talks at seminars indicate more influence from the United States.

This topic gives us a good opportunity to advertise our project. We found out that some Japanese judges misunderstand German jurisprudence because English information is limited. A good example is employee’s invention: German attorneys criticized that a Japanese court awarded huge damages to compensate employee’s invention in the blue diode case. However many Japanese judges believe that they are following German jurisprudence. German attorneys point out that Japanese case law is different from German case law. But without translation of German cases Japanese judges do not know what is different. Thus, we have started a project to translate German cases into English and will incorporate them into the Waseda database. In the future, more influence may come from Germany once Japanese judges start to read more German cases. But, because I am coming from the United States, of course, I prefer to have more United States influence on Japanese law.

Prof. Takabayashi: By the way, that blue diode case in which huge compensation for an employee invention was awarded was authored by Judge Mimura. He is very knowledgeable about German law and reads German cases in original German. Other laws like criminal law, administrative law, etc, Japan has more influence from the German law than the U.S. law. My father was a very well-known IP judge and he came to this country to study administrative law 50 years ago.

Recently, more and more influence is coming from the United States. Especially, I think Mr. Arai who is a key person for introducing recent revisions, likes the US system and he has introduced a lot of case law doctrines as well as legislation, so that is one reason we have so much U.S. influence. Yesterday we attended the 5th anniversary symposium sponsored by Munich Intellectual Property Law Center. We attended lectures given by European professors and we found out that there are many new developments we were not aware of in this country. The seminar made us realize that we should learn more from your country.

Moderator: We hope that you keep your interest in the project to translate German decisions and will remember your time at the Max Planck Institute, the influence of the German decisions. So I would like to thank you once again very much for this very good, very informative lecture that you have presented today. Thank you very much.

1 Price Waterhouse Coopers, A Closer Look: 2008 Patent Litigation Study: Damages Awards, Suc-


3 Supra note 2, IIP, Current Report.

4 Supra note 1, Price Waterhouse Statistics.