



# WINDS FROM JAPAN

The Licensing Executives Society Japan

## The IP High Court of Japan; Issuance of Enlarged Panel Decisions

By Jinzo FUJINO\*

Jurisdiction in Japan covering intellectual property cases has been reorganized. As reported in previous issues of our newsletter, appeals in intellectual property cases in Japan are now brought before one of two first instance courts; the Tokyo District Court or the Osaka District Court.

Judicial reorganization also extends to appeal courts; and effective from April 1, 2005, decisions on appeals issued by either of the first instance district courts are referred to the newly established Intellectual Property High Court (IPHC). The IP High Court was created to function as an exclusive appellate court within the Tokyo High Court.

Since commencing operation, the IP High Court has addressed a large number of appeal cases, both *ex parte* and *inter parte*. *Ex parte* cases are appeals made against the administrative decisions of the Commission of the Japanese Patent Office; while *inter parte* cases are appeals made against decisions rendered by the lower courts on infringement and/or remedy claims. For the past 8 months, i.e., from April through November 2005, the IP High Court has addressed a total of 280 cases, 246 of which are *ex parte* cases and 34 *inter parte* cases. In line with the recently introduced policy for accelerated proceedings, decisions on these cases were

issued within around one year from their filing dates at the IP High Court.

### Patent v. Other Forms of IP

It is worth looking at the types of appeal cases filed before the IP High Court. Out of the 246 *ex parte* cases, the number of patent cases was 191, about 78%. The remainder includes claims on other forms of intellectual property such as trademarks (13% at 32 cases), design cases (5% at 13 cases) and utility model (4% at 9 cases).

*Inter parte* cases in particular indicate interesting predictors. While patent cases are dominant (17 cases), unfair competition and copyright are also relatively active areas (8 cases and 7 cases, respectively). Trademarks, designs and utility models are inactive, and account for only one case each.

### Enlarged Panel Decisions

Under the new system, an enlarged panel of the IP High Court hears important cases. The enlarged panel consists of five judges including Chief Judge, Katsumi Shinohara, and four senior judges on behalf of four divisions of the IP High Court.

Since its establishment in the IP High Court, the enlarged panel has been assigned two *inter parte* cases: *KK Just System v. Matsushita Electric Ind. Co., Ltd.* ("Ichitaro" case) and *Canon v. Recycle Assist KK.* ("Ink Cartridge" case); and one *ex parte* case, *Japan Synthetic*

*Chemical Ind. v. Japan Patent Office* (“*Polarizing Film*” case). Judgment on the *Ichitaro* case and the *Polarizing Film* case have already been announced, and are summarized below.

#### *Ichitaro Case*

The *Ichitaro* case generated a lot of interest for several reasons. Firstly, this was the first *inter parte* case heard by enlarged panel of the IP High Court. Second, the case involved not one but a series of patent disputes between the parties. Third, and more importantly, the Tokyo District Court awarded an injunction against the manufacture and sale of *Ichitaro* software.

This decision was provocative because the allegedly infringing *Ichitaro* software had widespread distribution and is commonly used in Japan, while the patent at issue in the dispute in the case both old and unexploited. (For more details on the District Court’s decision in this case, see the “IP News from Japan,” WINDS#26, at 5.)

On appeal, the IP Court was quick to address the issue. In May 2005, one month after its establishment, the Court decided that the enlarged panel should hear the case. After three oral hearings, the enlarged panel decided to cancel the lower court’s decision and dismissed the claims made by Matsushita. The issues argued were: (1) whether the *Ichitaro* software met the requirements of the allegedly infringed patent; (2) whether *Ichitaro* software indirectly infringed that patent; (3) whether the patent should be invalidated in view of a newly submitted prior art; and (4) whether the Appellant’s supplemental evidence constituted a late filing for dismissal.

In its decision, the enlarged panel essentially supported the findings of the lower court with regard to each of issues (1) and (2). With regard to the issue (3), however, the panel adjudicated that the patent could have been invalidated by a newly filed prior art and was consequently unenforceable. Matsushita argued that the reference material was lately filed and that filing of the reference ought to have been

rejected. However, the panel did not accept this argument.

It is interesting to note that before making a judgment, the enlarged panel called a press conference and provided a brief to press reporters on the legal principles involved in “indirect infringement” under the Japanese patent law. It is reported that since the issue of indirect infringement was not one familiar to the public, Chief Judge, Shinohara, wished to provide the press with relevant information to enable a better public understanding of the issues involved in the case which had bearing on the forthcoming decision. Five days later, judgment on the *Ichitaro* case was delivered.

Eventually, Matsushita decided not to appeal further, and the decision of the enlarged panel became final. For those with a particular interest in the court’s decision, an English summary is available at:

[http://www.ip.courts.go.jp/eng/documents/pdf/g\\_panel/10040\\_eng.pdf](http://www.ip.courts.go.jp/eng/documents/pdf/g_panel/10040_eng.pdf).

#### *Polarizing Film Case*

In this case, the invention in question relates to “Method for manufacturing polarizing films.” A patent application for this invention was filed in 1993 (“Parameter” invention). A year later, the Patent Act was amended to streamline requirements of patentability. Subject to the amendment of the Patent Act, manuals for patent and utility model examiners were revised in 2000 to include specific guidelines for “Parameter” inventions for the first time.

In 2003, a JPO examiner decided to grant a patent to this application, and an opposition against the patent was subsequently filed. After reviewing the reasons that were filed in support of the opposition, the JPO decided that the decision of grant of patent should be cancelled. In issuing the decision, one of the points made by the JPO was that the scope of the claim was overly broad, and such a scope could be considered to be supported by the description of the specification. The applicant appealed against the decision arguing, among other matters, that the JPO had retrospectively applied

the examination guidelines to the application and that such retrospective application of the revised examination guidelines was not proper. The applicant also asserted that no examination guidelines existed at the filing date that were applicable to “Parameter” inventions.

On appeal, the IP High Court assigned the case to the enlarged panel board. The panel handed down its decision on November 11, 2005. The panel supported the decision of the JPO, finding the invention unpatentable on the ground of insufficient description in the specification. The panel placed more weight on insufficiency of disclosure than on the construction of the law governing asserted error.

#### Ink Cartridge Case

In this case, the patent in question relates to an ink cartridge for inkjet printers. Arguments before the courts related to whether refilling an ink cartridge amounted to an act of production or repair. If it was deemed to be production, patent infringement would take place; if repair, there would be no infringement.

The defendant imported refilled ink cartridge products from a company in China. The Chinese company refilled empty cartridges originally sold by the Patentee, with the empty cartridges being collected from North America, Europe and Japan. Once collected, the ink tanks were washed and cleansed for refilling with ink for resale and relabeled.

The Patentee sued the importer of the refilled ink cartridges for patent infringement in Japan. In defense, the importer argued that the patent

was unenforceable because it was exhausted when the Patentee first sold the cartridges. While distinguishing this case from the cases of repackaging camera films, the Tokyo District Court dismissed the Patentee’s claim of patent infringement. The court found that the act of refilling did not amount to an act of production irrespective of whether it was carried out by a legitimate user or by a recycling business. The court apparently supported the principle of patent exhaustion in this case. The court also noted in its decision that use of recycled goods was a contemporary obligation both for businesses and consumers in promoting environmental conservation.

However, the IP High Court overturned the lower court’s decision on January 31, 2006. Finding that the refilled ink cartridges infringed the patent in question, the IP High Court ordered a destruction of the infringing products. Reportedly, the losing party is to appeal against this decision.

Intellectual property disputes involving refilled ink cartridges are everywhere in the world. While most of them were settled amicably, some of them went to the courts. In general, courts’ decisions overseas seem to incline to support the interest of the Patentees. The decision of the IP High Court in this case can be regarded as a case law to harmonize the international trend.

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## Recent Topics and Trend of Software/Business Model Patents

By **Kei KONISHI\***

**METI Interim Report regarding Future Patent Protection**

The Ministry of Economy, Trade and Industry (METI) announced “Interim Report on Software Protection and Promotion of Innovation” from advisory committee in the METI for public comment on October 2005, which firstly raised

the Government's concerns that grant of patents for Software may have the effect of inhibiting innovation. The interim report points out three characteristics of software: 1) multiple layer architecture consisting of OS, middleware, and application software, where an upper layer depends on a lower layer to realize a particular function(s) via a particular application program interface (API); 2) communicating architecture among servers and clients via a particular communication protocol and their interfaces via common data formats; and 3) a lock-in effect where a user tends to continue to use the same platform such as a web browser once the user starts to use it. Also pointed out are the characteristics of the software industry that innovation is realized in a cumulative manner at low capital cost in comparison to many other industries such as bio, pharmaceutical, or hardware industries; and also pointed out is the prevailing Open Source Software (OSS) movement.

In the interim report, possible solutions to minimize any adverse effect that the exclusivity of patents on software are suggested; namely, a legal framework, proposed in the introduction of "Patent Misuse" doctrine. More particularly, there is suggested a solution that a breakdown be made of generic concept of "Abuse of Rights" stipulated in Civil Code Sec. 1(3) into "General Standards for Economic Transaction in the Market" (METI Establishment Act Sec. 4. The "General Standards" are intended to provide criteria for determining anticompetitive and interoperability-inhibiting practices. The conflict with the standards will constitute defense before the courts when accused of claims of software patent infringement. On the other hand, as a non-binding rule applicable to the industry is the introduction of "Creative Commons". The "Creative Commons" establishes public domain of Software technologies where patents are dedicated to the Open Source Community. The interim report lays emphasis on the importance of making general rule of non-enforcement of patents especially for Open Source Software and inventions as to interoperability. As future works to continue, review on compulsory license system and applicability of limitation provisions

in the Patent Act (Sec. 69) are suggested as well as study of the possibility of enhancement of Antitrust policies and practices. The subsequent final report is supposed to be published in spring 2006.

### **Recent statistics on Software/ Business model related inventions and inventive-step standard**

Recent statistics show a significant decline of grant rate of business model related inventions primarily classified into G06F 15/ G06F 17 subclasses in the JPO. In 2004, the grant rate of business model related inventions was 8%, while average grant rate among classes casts was at around 50%. The same tendency can be observed in the second instance of JPO. The Board of Appeal decisions where the Examiner's refusal against business model related inventions were affirmed stood at 80% in 2004, where average non-approval rate in appeal against Examiner's refusal decisions among classes casts stood at around 50%.

One recognized reason for such strict practice at the JPO is to be found in inventive-step standards for software related inventions. The Computer Software Examination Guideline ("Examination Guidelines Part VII: Examination Guidelines for invention in specific fields, Chap. 1 Computer Software-related inventions") states that no technical blocking factor/disinsentive in combination, replacement, or application of elements leads to no inventive-step. In case of: 1) exercising ordinary creative activity expected of one skilled in the art; or 2) difference from references only in data contents, no technical blocking factor is found, resulting in no inventive-step. Problems to be solved in connection with "software-implementation" or "computerization" are found as mere general problems common to the computer technologies, e.g., "to improve a level of decision making by using AI or Fuzzy logic, " or " to make input operation easier by using GUI", do not provide any inventive-step.

Examples of "exercising ordinary creative activity expected of skilled in the art" are given in the guidelines: 1) application to other fields; 2) addition of a well-known means/ replacement by

equivalent; 3) software-implementation of hardware-implemented function; 4) computerization of human transaction; 5) reproduction of a know event in computerized virtual space; and 6) design modification on the basis of know facts/ customs. Such detailed guideline facilitates the Examiners to reject software-related inventions even in case that all claimed limitations are not found in references. In practice, although rejections under patent eligibility provision are technically curable, so long as the concrete cooperation between

hardware and software can be added to claims through amendments, careful review in case of rejection under inventive-step provision is necessitated. The high courts tend to affirm examination standards of the JPO in decisions issued for software/ business model related inventions.

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## IP News from Japan

**By Shoichi Okuyama\***

### **JPO Issues Three Reports toward Patent, Design and Trademark Law Amendments for Public Comments**

Toward the end of December 2005, the JPO published three reports which discuss various pending issues and outline patent, design and trademark law amendments for 2006. Some important items that were discussed are as follows:

#### (1) Proposals for Patent Law Amendment

Currently an applicant can file a divisional application only at a time of filing an amendment. Therefore, it is not possible to file a divisional in response to a decision of rejection unless an appeal is filed. Under the newly proposed scheme, an applicant may be able to file a divisional within 30 days after issuance of a decision of rejection. It may also become possible for an applicant to file a divisional after issuance of a notice of allowance. Also, an act of exportation might be added as a possible form of patent infringement. Furthermore, the period for filing a Japanese translation for an English-based patent application may be changed to 14 months from the priority date. The period currently stands as 2 months from the Japanese filing date.

#### (2) Proposals for Trademark Law Amendment

It has been proposed to make it possible for retailers to obtain service mark registrations for

retail services. Also, an act of exportation may be added as a possible form of trademark infringement.

#### (3) Proposals for Design Law Amendment

The term of a design registration is to be extended to 20 years from the current 15 years term. The term starts at the time of successful registration after substantive examination. Also, an act of exportation and possession for the purpose of assignment may be added as possible form of design infringement.

Based on public comments that will be submitted, bills will be drafted and likely introduced before Diet this year.

### **METI Gather Forces to Reduce Examination Backlog**

January 17, 2006, the Japanese Patent Office published "Action Plan for Improving the Speed and Efficiency of Patent Examination" in the name of the "Headquarters for Improving the Speed and Efficiency of Patent Examination," which is headed by the Minister for the Ministry of Economy, Trade and Industry (METI) and administered by the head of the Patent Office.

This action plan is responsive to mandates set by the Intellectual Property Strategic Program 2005

([http://www.ipr.go.jp/e\\_material/ip\\_st\\_program2005.pdf](http://www.ipr.go.jp/e_material/ip_st_program2005.pdf) in English) published by the Intellectual Property Promotion Headquarters headed by

Prime Minister Koizumi. It calls for the period of waiting for examination to start to be maintained at less than 30 months by 2008 and to be cut down to 11 months by 2013; which compares with a period of 26 months in 2004. JPO is currently faced with a large number of patent applications for which examination is requested within the old 7-year period or within the current 3-year period. The backlog is rapidly increasing and now stands at 800,000 applications.

In order to achieve the required results, over the next five years, the JPO will: (1) increase the productivity of each examiner by 30%, (2) increase outsourced prior art searches by 25%, and (3) cut direct costs of examination by 20%.

More specifically, the JPO will continue to hire 100 new examiners on limited-time contracts

each year until 2008 and increase the use of search results made by the USPTO and EPO.

The JPO will ask Japanese applicants to increase the percentage of foreign applications with reference to the number of domestic applications from current 18% to 30%. It will also ask applicants to reduce the percentage of applications that will be terminally rejected by 20% and appoint a Chief Patent Officer who coordinates and sets up a consistent patent policy within a company. Further, the JPO will refund an entire examination fee if a patent application is withdrawn before substantive examination begins. The JPO will contact applicant companies and industry associations at every level.

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## Editors' Note

We hope that the articles contained in this issue will provide useful information and a considered perspective on interesting trends at the IP High Court since its establishment on April 1, 2005. We are also including articles providing an up-date on IP activities in Japan, and also on the present position on and examination trends for software related invention /business model invention in Japan. If you are interested in reading back issues of our newsletter, please feel free to access the following web site;  
<http://www.lesj.org>

For your reference, we will have 2006 LES International Conference from April 8 to April 12, 2006, in Seoul, South Korea. Please refer to the website for further information at  
<http://www.lesi2006.or.kr>.

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