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UK Patent Law Updates

Foreign Updates on Patent Law

Dr Michael A. Roberts

November 10, 2021



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Overview

What I'll be discussing:

- UK patent law changes
- UK SPC law changes
- UK case law highlights
- EPO Appeal procedure changes.



UK patent law changes

No significant changes post Brexit

- The UK remains part of the European Patent Convention (EPC)
(EPC includes 38 Member States, 2 Extension States and 4 Validation States)
- No changes to patents granted by the European Patent Office (EPO)
 - Can still apply to EPO for EP to cover UK
 - UK-based European patent attorneys continue to act as representative before the EPO.





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UK patent law changes

The UK and the UPC

The UK will not be involved in the Unified Patent Court (UPC):

“In view of the United Kingdom’s withdrawal from the European Union, the United Kingdom no longer wishes to be a party to the Unified Patent Court system. Participating in a court that applies EU law and is bound by the CJEU would be inconsistent with the Government’s aims of becoming an independent self-governing nation”.

Parliamentary Under Secretary of State, Minister for Science, Research and Innovation

July 20, 2020





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UK patent law changes

Minor legislative changes

- Cross-licensing with plant variety rights
- Security for costs
- Address for service for patent applications filed at the UKIPO.



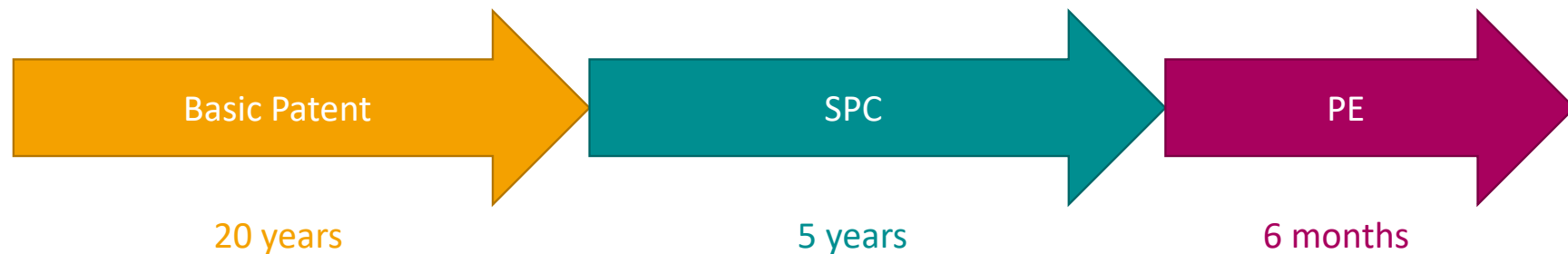


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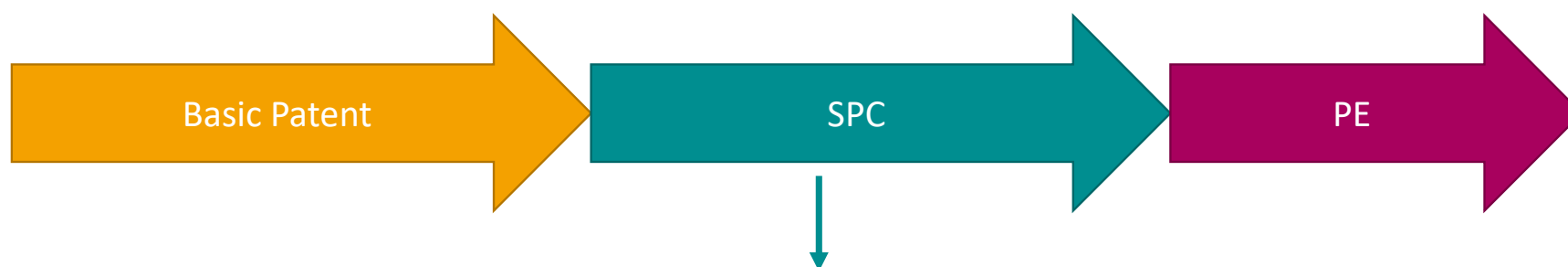
UK SPC law changes

Supplementary Protection Certificates (SPCs)



UK SPC law changes

Authorisation and application



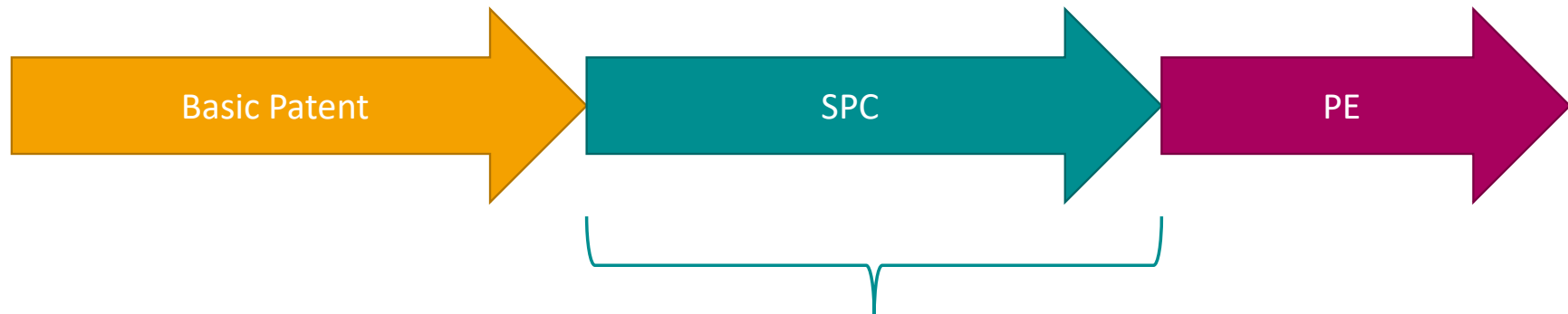
- Certificates only confer protection within the territory where there is a relevant marketing authorisation (MA)

	GB	NI	UK
Medicinal products	MHRA	EMA	Prior to end of transition period
Plant protection products	Health and safety executive under UK law	Health and safety executive under EU law	Prior to end of transition period



UK SPC law changes

Duration of SPC term



- Duration: time between the patent application date and **1st MA in EEA** minus 5 years
- Max. 5 years





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UK SPC law changes

Paediatric extensions



- 6 month duration
- Requires paediatric studies to be performed
- Extension only granted in territories of UK where requirements have been met
- No longer a need to provide evidence of authorisations covering all EEA states.





UK SPC law changes

Manufacturing waiver

UK waiver permits generic/biosimilar manufacture of UK SPC-protected medicine:

1. for **export** to countries outside the UK or EU; and
2. for **stockpiling** in UK in last six months of the term.

BUT EU waiver allows generic/biosimilar manufacture of EU SPC-protected medicine for export into the UK if no SPC in the UK.





UK Case Law

1. Regeneron Pharmaceuticals Inc v Kymab Ltd (Supreme Court, June 2020)

- Regeneron patents related to transgenic mice for production of human antibodies
- Aim to avoid human anti-mouse antibody (HAMA) response but also “immunologically sick” mice in which entire human Ig gene segments (V, D, J and C) replaced
- Mice with constant (C) regions retained but V, D, J segments replaced by human counterparts, using a “reverse chimeric locus”
- Good principle but at filing date not possible to achieve full replacement
- Supreme Court held patents insufficient as invention not enabled over entire claim scope.



UK Case Law

2. Unwired Planet v Huawei and Conversant v Huawei & ZTE (Supreme Court, August 2020)

- FRAND licences, particularly to portfolios of declared standard essential patents
- English courts can set the terms for global FRAND licences, even without consent of parties involved
- English courts are an appropriate forum to hear FRAND licence disputes.





UK Case Law

3. Thaler v Comptroller General (Court of Appeal, September 2021)

- Court of Appeal dismissed appeal of decision to refuse patent applications for inventions generated by an artificial intelligence (AI) machine (“DABUS”)
- DABUS couldn’t qualify as an inventor as it was not a person
- Under UK Patents Act 1977, patent cannot be granted for applications without named inventor(s).



EPO Boards of Appeal

Rules of Procedure of the Boards of Appeal (RPBA)

- New RPBA in force since January 1, 2020^{*1}
- Changes designed to expedite the appeal process
- Further reduction in appellants' flexibility to amend the case as submitted at first instance

^{*1} Plus new Article 15a in force from April 1, 2021.



EPO Board of Appeal

Rules of Procedure of the Boards of Appeal (RPBA)

- Article 12(2) - An appeal case “shall be directed to the requests, facts, objections, arguments and evidence on which the decision under appeal was based”
- Article 13 – Any amendment to a party’s appeal case after it has been filed must be justified and will only be admitted at the Board’s discretion
- Article 15(a) – Oral proceedings by videoconference possible
(Enlarged Board of Appeal decision G1/21 suggest Boards can impose only during a general emergency).



Thank you for listening

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NYIPLA Webinars

DE/EP Patent Law Updates:

Foreign Updates on Patent Law

Dr. Herbert Kunz

November 10, 2021

Meet The Speakers



Herbert Kunz
Principal
Fish & Richardson PC
Munich, Germany

Agenda

- I. Priority: the interplay between the U.S. and EP
- II. SEP (Standard Essential Patents) ; FRAND requirements
- III. German Employee Invention Act (Remuneration issues)
- IV. UPC -Development



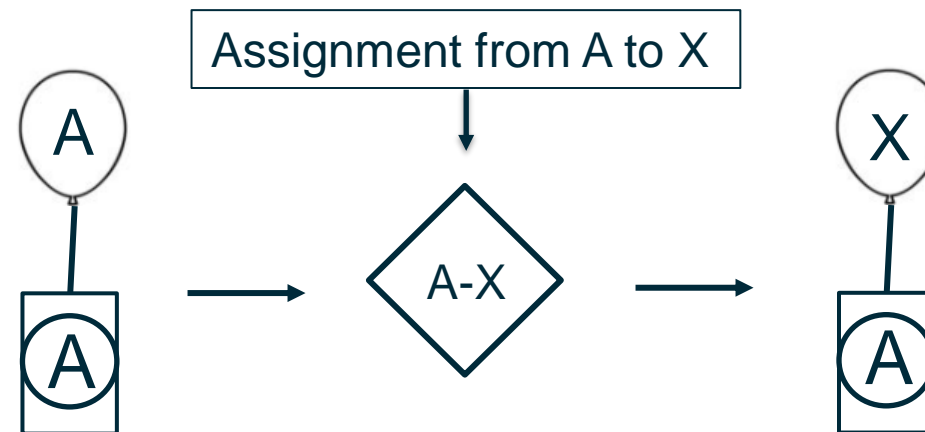
I. Priority: The interplay between the U.S. and EP

Filing and Claiming Priority

- Paris Convention
- Patent Cooperation Treaty
- Right of Entitlement
- Right of Priority
- EPO's "All Applicants" Rule

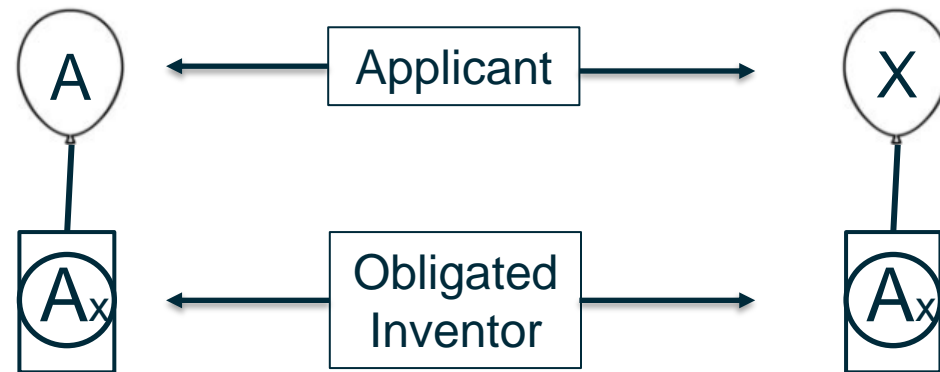
Right of Entitlement

- Under the Treaties, whoever files the application is called the Applicant
- **The Applicant must have had the right to file (entitlement) at the time of filing**
- Under the Treaties, the right to file an original application is based on the law of the nation where the invention occurred
- The right to file a subsequent application is presumed to rest in the earlier Applicant, unless there is a written transfer of ownership



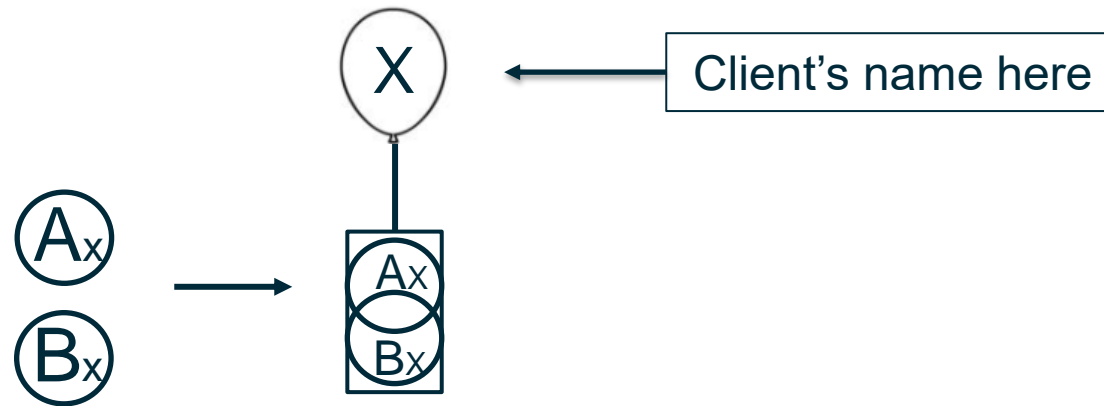
Right of Entitlement – US filing

- **Prior to 9/16/12, only *inventors* were considered ‘Applicants’ in US filings**
 - This was only a US issue; the rest of the world has never had that restriction
 - The treaties and associated rules accommodate this restriction
- **Now anyone holding an assignment obligation, or other proprietary interest, can file as Applicant**



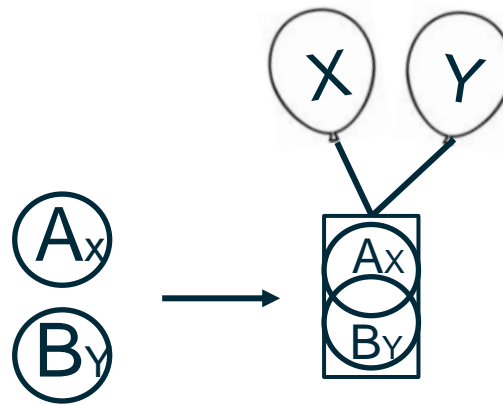
Right of Entitlement – US Filing

IF the inventors are all at least obligated to assign to your client, your client can file as the only listed Applicant



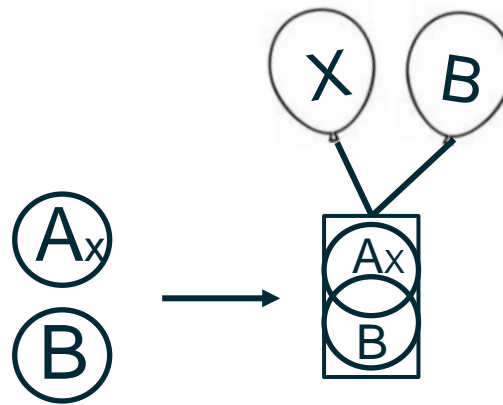
Right of Entitlement – original Applicant

IF different inventors are obligated to assign to different companies, those companies may be listed as co-Applicants



Right of Entitlement – original Applicant

IF an inventor is not obligated to assign to anyone, he/she must be listed as a co-Applicant



Right of Entitlement – the Applicant

- For US applications, a power of attorney will be needed from all applicants to:
 - Expressly abandon the application
 - Add a co-applicant
 - File a terminal disclaimer
 - File any e-Petition
- For PCT applications, the first listed company Applicant with a right to file will be deemed the common representative with the right to prosecute the application

Therefore, ALWAYS list your client as the FIRST Applicant on a PCT Request.

Right of Priority

- The right to claim the priority of an earlier application filed in another country flows from the Paris Convention
- This right belongs to the one who filed the earlier application (the Applicant)
- In some parts of the world, e.g., in Europe, this is considered a separate right that can be transferred independent of other rights

“Any person who has duly filed an application for a patent, or for the registration of a utility model, or of an industrial design, or of a trademark, in one of the countries of the Union, or his successor in title, shall enjoy, for the purpose of filing in the other countries, a right of priority during the periods hereinafter fixed.”

- PC Article 4, Section A(1)

Right of Priority in Europe (Article 87(1) EPC)

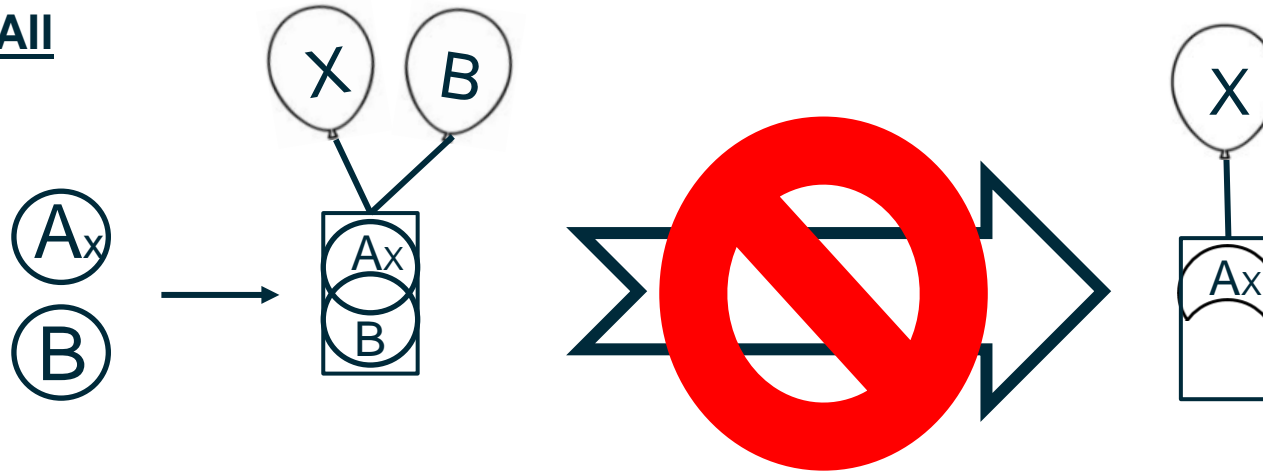
- **Requirements:**
 - A) Same applicant
 - B) Same invention
 - C) First application
- **Article 87(1) EPC:**
- (1) **Any person** who has duly filed, in or for
 - (a) any State party to the Paris Convention for the Protection of Industrial Property or
 - (b) any Member of the World Trade Organization, an application for a patent, a utility model or a utility certificate, **or his successor in title**, shall enjoy, for the purpose of filing a European patent application in respect of the **same invention**, a right of priority during a period of twelve months from the date of filing of the **first application**

Right of Priority in Europe

A) Same applicant - Basis

- The US considers the right of priority to vest with each Applicant, meaning that any Applicant may exercise the right
- The EPO considers the right of priority as pertaining to all of the named Applicants together, meaning that a priority claim can be made only by all of the Applicants named in the priority application (or their assignees)

- Per the EPO's All Applicants Rule:



- The applicants of the priority application have to be among the applicants of the later application

Right of Priority in Europe

B) Same invention requirement - Basis

- **Disclosure Test:**

- According to decision G 2/98, a skilled person must derive the subject-matter of the claim directly and unambiguously, using common general knowledge, from the previous application as a whole

- **Enabling Disclosure:**

- The invention claimed in the later application must already be disclosed in the priority document in an enabling manner, i.e., sufficiently clear and complete that a skilled person can carry it out.

- Particularly relevant for treatment claims where priority is sometimes challenged based on the ground that the priority application is not an enabling disclosure for the claimed treatment

The Interplay Between the U.S. and Europe

- **In the US, inventorship is important, and should be correct**
 - Must name all inventors
 - Each inventor owns the entire patent, not just a fraction
 - Thus, important to get assignments from all inventors
 - Incorrect inventorship or improper assignments can cast a cloud over patent rights
- **In Europe, inventorship is less important**
 - European patent application must designate the inventor(s)
 - The right to a European patent shall belong to the inventor or his successor in title

But: Before the EPO, the applicant shall be deemed to be entitled to exercise the right to a European patent. Assignments or employment agreements are not examined

 - Lack of entitlement is not a ground for revocation before the EPO, but priority is

Develop best practice approach that minimizes risks for conflict with US inventorship/entitlement requirements and EP priority requirements!

The CRISPR Decision T 844/18

- Central Issue:
- Priority applicant not included as applicant for later application (the CRISPR appeal scenario)

Transfer of the right of priority		
priority application filed in the name of:	later application filed in the name of :	proof of transfer necesssary?
A + B	A	YES (T 382/07, R. 9.1; T 788/05; R. 2 and T 844/18]
A + B	A + B + C	NO (T 1933/12, R 2.3 and 2.4) „joint applicants approach“

Boards of Appeal

16



II. SEP /FRAND ISSUES

SEP: Standard Essential Patents

FRAND: Fair, Reasonable and Non-Discriminatory

Key Issues in German Proceedings

- **the defendant's willingness to license;**
- **The FRAND character of the SEP owner's license offer; and**
- **The FRAND character of the defendant's counter-offer**

Being a willing licensee

- Prior *SISVEL v. HAIER* judgement minor emphasis on willingness to license;
- Federal Court of Justice substantially increased requirements, (i.e. clear and unambiguous statement)
- Dusseldorf Court (*Nokia v. Daimler*) referred questions re *Huawei v. ZTE* to the ECJ (European Court of Justice)
- The requirements set out by the Federal Court of Justice is moreover accepted by German Courts, i.e. Dusseldorf, Mannheim, Munich

FRAND offer by SEP owner

- Regarding *Sisvel v. Haier* decisions, it is no longer necessary that the SEP owner's offer must be FRAND in each and any details
- For example, two comparable license agreements are sufficient, and not abusive.
- Strengthen the position of a SEP owner, who already concluded comparable license agreements

FRAND re defendant's counter-offer

- **Defendant must make a specific counter-offer, i.e.**
 - Within a short time frame (if too late, no FRAND counter-offer)
 - in writing
 - in line with industry practice
- **Purposefully engage in licensing discussions for concluding a licensee agreement**



III. German Employee Invention Act

Remuneration for an Inventor in DE

- After having disclosed an Employee's invention to an Employer, the Employer has the obligation
 - to decide, if he accepts the invention within 4 month, and if yes,
 - to file an application; and if filing
 - to remunerate the Inventor based on specific parameters, including **reference value** to determine the compensation of invention
- Reference value could be the sale of an invention

Remuneration for an Inventor in DE

- If the reference value are disputed by the Inventor, proof of evidence lies at the Employer
- Consequently according to the decision of the LG Mannheim:

!! Purchase contracts, which involves the invention, need to be disclosed to the inventor or parties involved. !!



IV. United Patent Court (UPC) Development

UPC - Developement

- Order dated 23 June 2021 of FCC, the way is cleared for Germany to participate in the Agreement on a Unified Patent Court (UPCA) and the respective protocol (PAP-Protocol)
- If the PAP-Protocol is ratified, the legal capacity and organizational capacity of the UPC will be established (about to be 8 month).
- By this, UPC enters into force and be available to the users of the European Patent system.
- Companies started already developing their own filing strategies, but also decided against the European Unified Patent System



Thank You for your attention!

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Recent Update on China Patent Law

Stephen Yang - IP March

2021.11.10

Highlights of 4th Amendment to Patent Law

- Stronger patent protection
- More friendly design practice
- Patent term adjustment
- Drug patent relate provisions (equivalent to Hatch-Waxman Act)
- Open license system

4th Amendment to China Patent Law took effect on June 1, 2021

Punitive Damages

- Introduction of the concept of willful infringement
- Associated punitive damages
 - amount of damages may be increased up to 5 times of the calculated damages
- Calculation of damages
 - patentee's losses or the illegal gain by the infringer
 - reasonable multiples of the royalties
 - statutory damage

Increased Statutory Damages

- When it is difficult to determine damages through calculation, court may grant statutory damage
- Increased statutory damage from RMB30,000 to RMB5,000,000 (US\$4,615 to US\$769,230).
 - lower limit raised to 3 times of previous limit
 - upper limits raised to 5 times of previous limit
- Reasonable expenses paid by the patentee for stopping the infringement can be granted in addition to the calculated damage or statutory damage.

Reversed Burden of Proof

- Lack of discovery process in litigation
- Evidence for calculating damages, e.g. account book, sale record, etc. in the possession of the infringer - court may order the infringer to provide evidence
- If the infringer fails to provide evidence or provides fake evidence, court may determine the amount of damages based on the claim made and the evidence provided by the plaintiff.
- Plaintiff to claim high? - court fees are related to the amount at stake

Wyeth Won with Punitive Damages

- Hangzhou Intermediate Court: decision on December 25, 2020
- Plaintiff: Wyeth LLC and Wyeth Shanghai Defendants: 4 companies including Guangzhou Wyeth Baby Products Ltd. and Qingdao Wyeth Baby Products Ltd. and 2 individuals
- Six defendants used "惠氏", "Wyeth" and "Wyeth Little Lion" logos on the infringing products, product packaging, brochures & website : trademark infringement
- "Wyeth" in the business name of Qingdao Wyeth Baby Products Ltd. constitutes unfair competition.
- Court found willful infringement, applied triple damages and awarded RMB 30 million (USD 4.63 million) and RMB 550,000 (USD85,000) for reasonable expenses. (fully supported Wyeth's claim)
- The court also ordered Qingdao Wyeth Baby Products Ltd. to change its business name



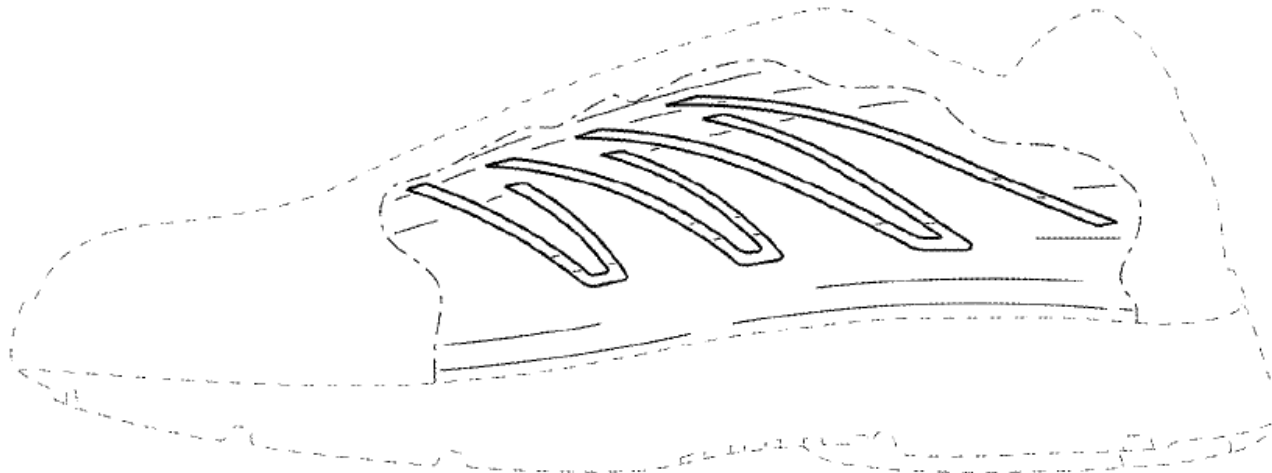
Wyeth Won with Punitive Damages

- Wyeth LLC won again in the 2nd instance on 2021's World IP Day
- Both courts at two levels fully supported Wyeth's claim, i.e., CNY 30.55 million (~USD 4.7 million)
- However, the 1st and 2nd instance courts have different views on how punitive damages should be calculated
- Zhejiang High Court as the 2nd instance used “base amount + base amount * multiples (punitive damages)”
- This decision was the first case with punitive damages after the “Interpretation of the Supreme People's Court on the Application of Punitive Damages in the Trial of Civil Cases of Infringement of Intellectual Property Rights” (Judicial Interpretation) took effect on March 3, 2021
- Different from the method used in earlier decisions, such as *FILA v. Zhejing Zhongyuan* and *Adidas v. Ruan Guoqiang* in which cases the total damages awarded were the base amount *3.



Changes to Design Practice

- Term of design patent is 15 years, extended from 10 years
- China is about to join the Hague Agreement.
 - a brand new chapter relates to Hague Agreement is being added to Implementing Regulations of China Patent Law
 - CNIPA will still do its own examination and OAs will be expected
- Partial design is allowed



Patent Term Adjustment

- For an invention patent right granted after 4 years from the filing date and after 3 years from the date of the substantive examination request, patentee can request CNIPA to compensate for the term of the patent due to unreasonable delay in the examination.
- Request to be made within 3 months from announcement of patent grant
[draft Implementing Regulations]
- Compensation of patent term as per actual days of delay
[draft Implementing Regulations]

Drug Patent - Patent Term Extension

- To compensate for the time spent in the review and marketing approval of new drugs, the patentee may request CNIPA to grant patent term compensation for ≤ 5 years
- Total effective period of patent right after the new drug is approved for marketing shall not exceed 14 years
- Compensation time = the date the new drug is approved for marketing in China - the patent filing date - 5 years

[draft Implementing Regulations]

- Request for patent term compensation to be made within 3 months of marketing approval

[draft Implementing Regulations]

Drug Patent - Patent Linkage System

- In the process of review and marketing approval of a drug, the applicant for marketing approval of the drug and the relevant patentee may bring a suit in court and request a judgment be made on whether the related technical solution of the drug applying for marketing approval falls within the scope of protection of the drug patent.
- National Medical Products Administration (NMPA) may make a decision on whether to suspend the marketing approval based on the judgment
- Relevant parties may also request an administrative ruling from CNIPA for the dispute over the patent right related to the drug applying for marketing approval.

Drug Patent - Equivalent to Hatch-Waxman Act (1)

- Bolar Exemption available since 2009 (3rd Amendment)
- Patent Term Extension
- Patent Linkage
- Catalog of Approved Drugs in China
- China's "Patent Information Registration Platform for Approved Drugs" - equivalent to the corresponding content in "Approved Drug Products with Therapeutic Equivalence Evaluations" in the US - "Orange Book"

A system equivalent to that in the US under Hatch-Waxman Act

Drug Patent - Equivalent to Hatch-Waxman Act (2)

- Implementation Measures for the Early Resolution Mechanism for Drug Patent Disputes (Trial Version) by CNIPA & NMPA
- Administrative Adjudication Measures for Early Resolution Mechanisms for Drug Patent Disputes by CNIPA
- Provisions on Several Issues Concerning the Application of Law in the Trial of Patent Civil Cases Involving Drug Marketing Review and Approval (Draft for Comments) by Supreme People's Court (SPC)
- Regulations for the Implementation of Drug Administration Law
- Implementation Measures for the Protection of Drug Experimental Data (Trial Version) – draft for comments, by NMPA in 2018

A system equivalent to that in the US under Hatch-Waxman Act

Drug Patent - Equivalent to Hatch-Waxman Act (3)

- Request for judgement or adjudication
 - patentee: : 45 days from disclosure of application for marketing approval by NMPA
 - Generic: possible only after this time limit
- NMPA waiting period for court judgement or CNIPA adjudication: 9 months
- Market exclusivity for generic drug: 12 months
 - First drug that gets marketing approval; **AND**
 - First drug that invalidate the drug patent
- Test data protection period: 6 years
 - Different periods for different type of drugs: no final regulations yet

A system equivalent to that in the US under Hatch-Waxman Act

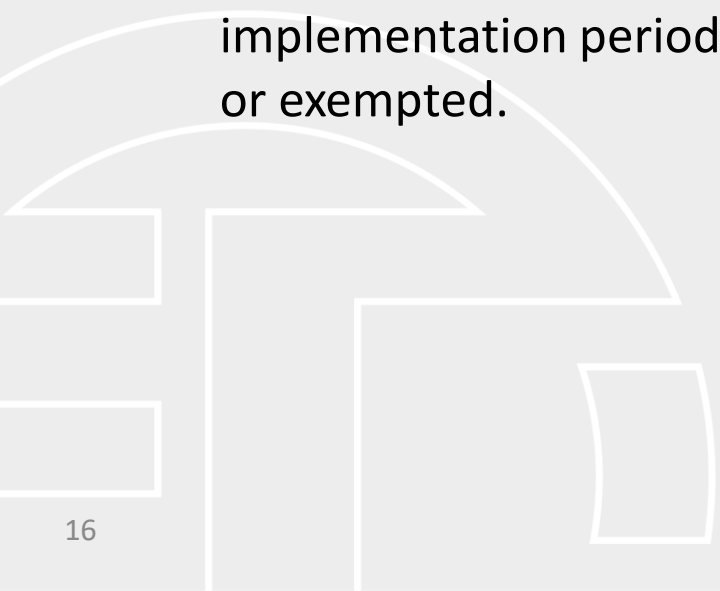
Open License System

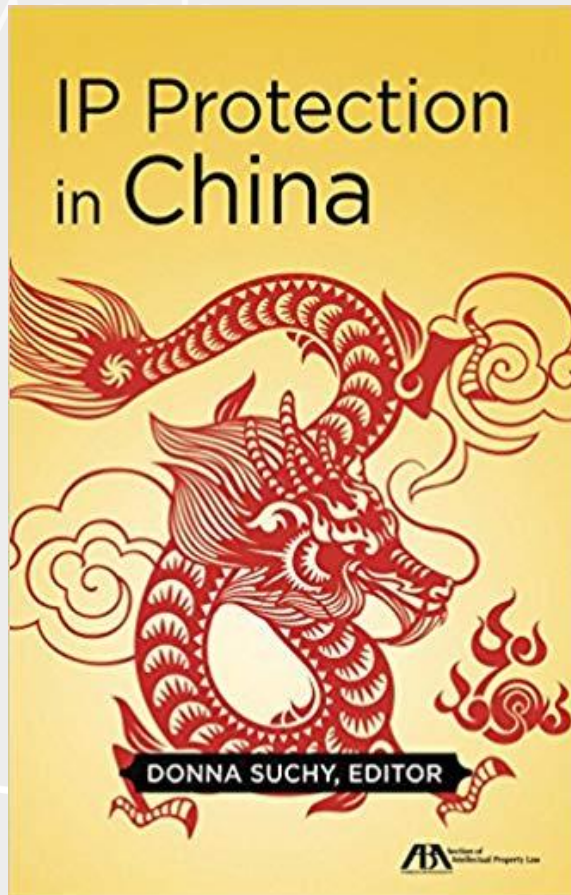
- Patentee may express in writing to CNIPA its willingness to license their patents to anyone and specify relevant royalties and method of payment.
- CNIPA will announce the offer of open license.
- Patentee can withdraw its offer of open license and CNIPA will announce the withdrawal statement. Previously granted open license is not affected.
- Anyone can get the license automatically after it informs the patentee in writing, and pay the license fee according to the open license announcement

Open License System



- Patentee that offers the open license and potential licensees can still negotiate on license fees.
- Patentee that offers the open license may only grant ordinary licenses and shall not grant a sole or exclusive license
- To encourage patentees to offer open licenses, during the implementation period of the open license, the annuities are reduced or exempted.





Refer to my books for more information

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Recent Updates on Japan Patent Law

Tetsuya ISHIHARA
JPO IP Attaché / JETRO NY Office
November 10, 2021





Introduction of a system for calling for third-party comments in patent infringement litigation

In patent infringement litigation, **if the court, at the motion of a party, finds it to be necessary**, the court should be able to seek comments from third parties regarding necessary matters such as the application of the Patent Act to the case.

Scholars / Lawyers /
Experts, etc.

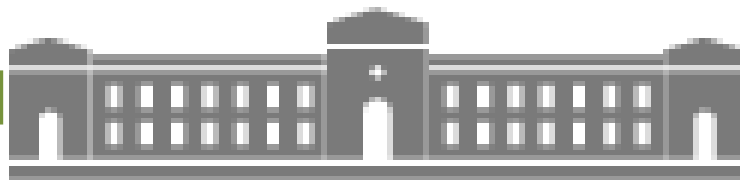
Industry groups /
Companies, etc.

Overseas groups /
Companies, etc.

Comments



Right holder



Court



**Alleged
infringer**

2021 Amendment
Effective date: April 1, 2022



Introduction of Inspection System

Rigorous Requirements

- Need to prove infringing actions
- Probability of infringement
- No other means of adequate evidence collection
- Avoiding an excessive burden on the alleged infringer

(1) Petition



Right holder

(2)

- Enter property
- Ask questions
- Ask to be shown documents
- Operate equipment
- Measure
- Conduct experiments



Expert
+



Court execution
officer

(3) Report creation
& disclosure



Alleged infringer

Protection of Confidentiality

- Motion for challenge in relation to appointment of an expert
- Inking out of confidential information in reports
- Criminal penalties for experts leaking confidential information

2019 Amendment
Effective date: October 1, 2020



Partial enlargement of Damages Calculation Method

Profit per unit

**Current
Damages**

Determination of damages
for portion beyond rights-
holder's production/sales
capacity, etc.

**Sum Equivalent
to licensing fee**

- Deeming that the right-holder had licensed the portion to the infringer
- Assuming patent rights infringement

Right-holder's production/
sales capacity

Volume of infringing
products sold

2019 Amendment
Effective date: April 1, 2020

Designing an IP Dispute Settlement System for Effective
Rights Protection (2019)

https://www.jpo.go.jp/e/resources/shingikai/190215_tokkyo_houkoku.html



“Hantei ” (Advisory Opinion) System



Demandant

Request for “Hantei ”

- **Low cost (40,000 yen per case)**
- Specify an object, product, etc.
- make a comparison with the patented invention

Reply



Demande

Proceedings by an Administrative Judge Panel



- **Process by three administrative judges**
- Compare and determine claims of the patented invention and the object, product, etc.

“Hantei ” (Advisory Opinion)

- **Prompt conclusion** (administrative service that is not legally binding)
 - **3 months** at the earliest.
- Whether the object, product, etc. falls or does not fall within the technical scope of the patented invention)



“Hantei ” (Advisory Opinion) for Essentiality Check



Demandant

Request for “Hantei ”

- Specify **a virtual subject, article, etc. compliant with the standard**
- Make a comparison with the patented invention

Reply



Demandee

Proceedings by an Administrative Judge Panel

- Compare and determine the patented invention and **the virtual subject, article, etc.**



“Hantei ” (Advisory Opinion)

- Whether **the virtual subject, article, etc.** falls or does not fall within the technical scope of the patented invention

May be subject to **inspection restrictions** based on **a statement that trade secrets are included** in the submitted documents (the virtual subject, article, etc. itself is not usually subject to inspection restrictions.)

Can determine whether the patented invention is an SEP based on the results of “Hantei ”

Effective date: April 1, 2018 (Patent Act was not amended)

Manual of HANTEI(Advisory Opinion) for Essentiality Check (2019)

https://www.jpo.go.jp/e/support/general/sep_portal/document/index/manual-of-hantei.pdf



Guide to Licensing Negotiations involving SEPs

Main Issues:

- ◆ “Good Faith” in Licensing Negotiations
- ◆ Parties to Negotiation in Supply Chain
- ◆ Royalty Base (e.g., SSPPU v EMV)
- ◆ Royalties for Different Uses

NOT legally binding, **NOT** prescriptive

GUIDE TO LICENSING NEGOTIATIONS
INVOLVING
STANDARD ESSENTIAL PATENTS

June 5, 2018
Japan Patent Office

Available in JP/EN

Published through **Open Dialogue** with Global Stakeholders

29 Sep 2017-10 Nov 2017	Proposals (~50 submissions from inside/outside Japan)
9 Mar 2018 - 10 Apr 2018	Public comments
13 Mar 2018	International Symposium
5 Jun 2018	Publication of the guide

https://www.jpo.go.jp/e/support/general/sep_portal/

Open and transparent process



Voices from users

- Well-balanced between patent proprietor and implementer
- Comprehensive and easy-to-understand
- Best SEP-related document!

2022

Revised edition to be published



Other references



JPO Key Features

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Review of the 4th Amendment of China's Patent Law

Stephen Yang

Twelve years from the third amendment of China's patent law, the fourth amendment was approved by the Standing Committee of the National People's Congress on October 17, 2020. The new amendment took effect on June 1, 2021. This article provides a detailed review of the changes from the previous version of the patent law.

1. Enhanced Protection of Patent Rights

The first aspect of changes relates to enhanced protection of patent rights. Specifically, it includes punitive damages, increased statutory damage, reversed burden of proof, increased fine for passing-off, and extended time limit for initiating litigation.

(1) Punitive Damages and Increased Statutory Damage

Under the previous version of the patent law, the concepts of willful infringement and associated punitive damages are not available. These are included in Article 71 of the fourth amendment of the patent law. Specifically, for willful infringement on a patent right, if the circumstance is serious, the amount of damages may be increased up to five times of the calculated damages. The amount of damages for patent right infringement shall be determined by trying the following methods in the following order. First, the amount of damages may be determined according to the patentee's actual losses caused by the infringement or the benefits acquired by the infringer through the infringement. Where it is difficult to determine the losses of the patentee or the benefits acquired by the infringer, the amount of damages may be determined according to the reasonably multiples of the royalties of that patent. It is to be noted that compared with the previous provisions, Article 71 slightly revised the order of the methods for calculating damages that should be used. Either the patentee's actual losses or the benefits acquired by the infringer can be used first, whereas the previous law requires that the actual losses must be tried first.

If it is difficult to determine the losses of the patentee, benefits of the infringer, or royalties of the patent, the people's court may, on the basis of the factors such as the type of patent right, nature of the infringement, and seriousness of the case, determine the amount of compensation within the range from RMB30,000 to RMB5,000,000 (US\$4,500 to US\$750,000). This is referred to as statutory damage and its lower and upper limits are respectively raised to 3 times and 5 times of the previous ones.

(2) Reversed Burden of Proof

One of the biggest difficulties faced by a patent right holder in a patent infringement law suit in China is the lack of discovery. It is often the case that infringement is

found but there is no good evidence to calculate damages as the evidence is in the possession of the defendant. To deal with this problem, Article 71 of the fourth amendment of the patent law provides where the right holder has tried his best to provide evidence but the account book and materials related to the infringement are mainly in the possession of the infringer, in order to determine the amount of damages, the people's court may order the infringer to provide the account book and materials related to the infringement acts.

Where the infringer fails to provide the account book or materials or provides fake account book or materials, the people's court may determine the amount of damages based on the claim made and the evidence provided by the right holder. It follows that the plaintiff may want to claim high when launching an infringement law suit. However, one factor that needs to be considered is that the court fees are related to the amount at stake. Even if China does not have a loser-pay system, i.e., the losing party does not need to cover the cost of the winning party in a law suit, over-claiming increases the risk of having to pay higher court fees if the plaintiff does not win the case.

The punitive damages and the increased statutory damages, together with the reversed burden of proof for calculating damages are likely to significantly increase the amount of damages awarded in future patent infringement cases in China, which will create greater deterrence to potential infringers.

(3) Increased Fine for Passing-Off

Patent passing-off can be generally understood as fraud, such as false patent marking. Article 68 of the fourth amendment provides that when handling a patent passing-off case, a patent enforcement authority can confiscate the illegal gains of the party who passes off a patent and, in addition, impose a fine of not more than five times the illegal gain, which is increased from the previous limit of four times of the illegal gain. In case there is no illegal gain or the illegal gain is less than RMB50,000 (US\$7,500), a patent enforcement authority may impose a fine of up to RMB250,000 (US\$37,500). It is to be noted that the fine is a type of punishment on the party who passes off a patent but the patent right holder will not gain any financial benefit from the fine. Of course, in addition to confiscation and fine, the party who passes off a patent may also have to bear civil liability, e.g., compensation to the patent right holder.

According to the current patent law, when a patent enforcement authority investigates and handles the suspected passing-off of a patent, it may, based on evidence obtained, (1) inquire the parties concerned and investigate the circumstances related to the suspected illegal act; (2) conduct on-site inspection of the places where the suspected illegal act is committed; (3) review and duplicate the relevant contracts, invoices, account books and other related materials; (4) inspect the products related to the suspected illegal act; and (5) seal or confiscate the products which pass off the patent.

In China, a patent right holder can enforce a patent right through judicial route, i.e., people's court or administrative route, e.g., local IP offices, or Administration for Market Regulation (AMR) for patent passing-off cases only. However, local IP offices do not have the power to review and duplicate the relevant contracts, invoices, account books and other related materials and to seal or confiscate the products when handling patent infringement cases. AMRs have such power but their authority for patent cases is limited to patent passing-off only.

(4) Extended Time limit for Initiating Litigation

According to Article 74 of the fourth amendment of the patent law, the time limit for taking legal action against patent right infringement was extended from two years to three years, commencing from the date when the patentee or interested party knows or should have known of the infringing activity and the infringer. Similarly, if a patentee wants to sue another party for compensation during the period from the publication of the invention patent application to the grant of the patent right, the time limit for taking legal action is also extended from two years to three years, commencing from the date when the patentee knows or should have known of the use of the patent by that other party. However, the time limit shall commence from the date when the patent right is granted, if the patentee knows or should have known of the use before the patent right is granted.

2. A More Friendly Design Practice

In the fourth amendment, the second aspect of changes from the previous version of the patent law relates to design patent practice. Specifically, it includes extended patent term for design, allowance of partial design and possibility of claiming domestic priority for design applications.

According to Article 42 of the fourth amendment of the patent law, the term of a design patent shall be 15 years, extended from 10 years as prescribed in the previous version of the patent law. It is believed that this change is part of China's effort to join the Hague Agreement.

Article 2 of the fourth amendment redefines design as any new design of the shape, the pattern or their combination, or the combination of the color with shape or pattern, of the whole or a part of a product, which creates an aesthetic feeling and is fit for industrial application. This makes it possible to protect a portion of a product, often referred to as "partial design". Under the previous law, a design patent can only protect a complete product but not a portion of a product which cannot be separated or cannot be sold and used independently. Allowance of partial design makes design practice in China more similar to that in many other jurisdictions and offers broader protection of design patents. Without having to limit their design patent to specific complete products even though the design points are only related to certain part of such products, design patent right holders will be in a better position to protect themselves from infringers who may be able to avoid the risk of

infringement by only copying their design points and using them in a different shaped product.

The allowance of partial design also renders design patent protection for graphic user interface (GUI) more useful. Applicants do not have to protect the product, i.e., the display screen panel, with the GUI, in their design patents, as under the previous practice. Instead, a design patent may be used to protect the design of the GUI itself, with the other parts of the product disclaimed and presented by dotted lines. Even in the GUI itself, some parts may be disclaimed through the use of dotted lines. It will be interesting to see what standard will be used in the examination of partial design application, as the detailed rules have not been finalized up to the completion of this article.

Article 29 of the fourth amendment of the patent law includes domestic priority for design applications, which is not available under the previous patent law. Specifically, if within 6 months from the date an applicant first files an application for a design patent in China, he files another design application in China for the same subject matter, the applicant may enjoy the right of priority. Under the current domestic priority practice for invention and utility model applications, when domestic priority is claimed, the first filed Chinese application will be deemed to be withdrawn. Therefore, it is not possible to keep both applications. It is reasonable to believe that this also applies to design applications.

3. Drug Patent Related Provisions

In the fourth amendment, the third aspect of changes from the previous version of the patent law relates to drug patents. Specifically, it includes patent term extension and patent linkage system.

(1) Patent Term Extension

Article 42 of the fourth amendment provides that in order to compensate for the time spent in the review and marketing approval of new drugs, at the request of the patentee, CNIPA (China National Intellectual Property Administration) may grant compensation for the term of the invention patent related to the new drug which has been approved for marketing in China. The compensation period shall not exceed five years, and the total effective period of patent right after the new drug is approved for marketing shall not exceed 14 years.

It is to be noted that “Bolar exemption” was already included in the previous version of the patent law, i.e., use of a drug patent for the purpose of application for drug approval is not considered a patent infringing activity, but extension of patent term was not available. The inclusion of patent term extension in the fourth amendment of the patent law better balances the interest of innovative drug companies and the generic companies. Detailed provisions are not yet finalized regarding how the extension is to be calculated. However, it can be expected that this new provision encourages innovative drug companies, especially foreign drug originators to bring

their new drugs to the Chinese market as early as possible and hence make new drugs more accessible to the Chinese people.

(2) Patent Linkage System

Article 76 of the fourth amendment of the patent law provides that in the process of review and marketing approval of a drug, if a dispute arises between the applicant for the marketing approval of the drug and the relevant patentee or interested party due to the patent right related to the drug applying for registration, the relevant party may bring a suit in the people's court and request a judgment be made on whether the related technical solution of the drug applying for registration falls within the scope of protection of other's drug patent. The National Medical Product Administration (NMPA) may, within the prescribed time limit, make a decision on whether to suspend the marketing approval of the relevant drug based on the effective judgment of the people's court.

The applicant for marketing approval of a drug and the relevant patentee or interested party may also request an administrative ruling from CNIPA for the dispute over the patent right related to the drug applying for registration.

This article introduces the so-called "patent linkage system" into the patent law, which provides an early resolution mechanism for drug patent disputes, aiming to resolve potential patent disputes before relevant drugs are marketed.

On 4 July 2021, NMPA and CNIPA jointly issued 'Measures for the Implementation of Early Resolution Mechanisms for Drug Patent Disputes (Trial)' which provides details rules for the patent linkage system, wherein Article 11 prescribes that market exclusivity will be given to the chemical generic drug that is the first to successfully challenge the patent and is the first to be approved for marketing. Within 12 months from the date of approval of this drug, NMPA does not approve any other generic drugs of the same type. On the same day, China's 'Patent Information Registration Platform for Approved Drugs' (<https://zldj.cde.org.cn/home>) formally started operation. This platform is considered equivalent to 'Approved Drug Products with Therapeutic Equivalence Evaluations' in the US, i.e., the 'Orange Book'.

The protection of drug experimental data is provided for in Article 34 of 'Regulations for the Implementation of Drug Administration Law' which prescribes that within 6 years from the date when a drug manufacturer or seller obtained the license to make or sell drugs containing new chemical ingredients, NMPA does not grant license to any other applicants who, without the consent of the drug manufacturer or seller, use their data to apply for license.

Therefore, the major elements of Hatch-Waxman Act can be found in China, with Chinese characteristics, e.g., the administrative resolution in the patent linkage.

However, details on the type of drugs and the corresponding data protection period are not yet available. By now there is only a draft version of 'Implementation

Measures for the Protection of Drug Experimental Data (Interim)’ available. This is a draft published in 2018 for solicitation of opinions. No further progress has been available so far. Therefore, it is reasonable to expect that formal implementation measures will be issued in the future.

4. Open License System

Articles 50 to 52 of the fourth amendment of the patent law provide an “Open License” system. Specifically, a patentee may express in writing to CNIPA its willingness to license their patents to anyone and specify relevant royalties and method of payment. CNIPA will announce the patentee’s statement and offer the open license. Patent right evaluation report should be provided with the offer of an open license for utility model or design patent. If a patentee withdraws its offer of open license, it must do so in writing and CNIPA will announce the withdrawal statement. In this case, any previously granted open license shall not be affected.

According to Article 51, anyone that is willing to exploit the patent which is open licensed gets the license to exploit the patent after it informs the patentee in writing, and pay the license fee according to the open license announcement. In other words, anyone that complies with the above provision automatically gets a license. In addition, the same article specifies that the patentee that offers the open license and potential licensees can still negotiate on license fees. However, the patentee that offers the open license may only grant ordinary licenses and shall not grant a sole or exclusive license for the patent concerned. Moreover, if any dispute arises with respect to the open license, the relevant parties may either request mediation from CNIPA or launch a law suit in people’s court.

Interestingly, in order to encourage patentees to offer open licenses, the fourth amendment of the patent law provides that during the implementation period of the open license, the annuities paid by the patentee shall be reduced or exempted.

5. Other Important Changes

(1) Patent Term Adjustment

Patent term adjustment is made available in Article 42 of the fourth amendment of the patent law. It is believed that this change was made in line with the China-US phase 1 trade agreement. Specifically, where an invention patent right was granted after four years from the filing date of the invention patent application and after three years from the date of the substantive examination request, CNIPA shall, at the request of the patentee, provide compensation for the term of the patent with respect to the unreasonable delay in the examination stage of the invention patent. Detailed calculation method has not been finalized yet.

(2) A New Grace Period Provision

Article 24 of the fourth amendment includes a new provision that relates to grace period. Specifically, disclosure of an invention for public interest in case of national emergency can enjoy the grace period of 6 month.

(3) Patent Right Evaluation Report

If a dispute over patent infringement involves a utility model patent or a design patent, the people's court or the administration office may require the patentee or the interested parties to present a patent right evaluation report prepared by the CNIPA through searching, analyzing, and assessing the relevant utility model or design, which shall serve as evidence for trying or handling the patent infringement dispute. Previously, only patentees or the licensees that have the right to launch law suits have the right to request patent right evaluation reports. In the fourth amendment of the patent law, it is provided that relevant parties from both sides of the law suit may request the patent right evaluation report produced by CNIPA. This means that not only the patentee can request the CNIPA to produce the patent right evaluation report but the defendant is also able to do so. It provides a new vehicle for alleged infringers to defend themselves.

However, it is not clear if a party that is not involved in an infringement law suit but is concerned with potentially infringement on a utility model or a design patent can request a patent right evaluation report from CNIPA.

(4) Extended Deadline to Submit Priority Documents

According to Article 30 of the fourth amendment, an applicant who claims priority from an invention or a utility model patent application shall submit a written declaration at the time of filing an application and submit copies of the patent application documents filed for the first time, within 16 months from the date on which the invention or utility model patent application was filed for the first time. In other words, for invention or utility model applications, the deadline for submitting priority documents is extended from 3 months from claiming priority to 16 months from the priority date.

Copies of priority documents for claiming priority from a design application should be submitted within 3 months from filing an application for design patent.

(5) Anti-Monopoly Provision

The fourth amendment of the patent law includes a new Article 20 which is a very broad anti-monopoly provision. Specifically, it provides that the application for and the use of patent rights should follow the principle of good faith. Patent right should not be abused to damage public interest and other's legitimate rights. Abuse of patent rights to exclude or restrict competition, which constitutes monopolistic behavior, shall be dealt with in accordance with the Anti-Monopoly Law of China. Currently, there are several laws, regulations or judicial interpretations in place to

address the abuse of intellectual property right. However, it will be interesting to see how this provision is applied in litigation in the future.

Comparison Table with Comments for the 4th Amendment of China's Patent Law

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China's Patent Law (3rd Amendment passed in 2008)	China's Patent Law (4th Amendment passed on Oct 17, 2020)	IP March Comments
Chapter 1 General Provisions	Chapter 1 General Provisions	
Article 1. This Law is enacted to protect the legitimate rights of the patentee, to encourage inventions-creations, to advance the exploitation of inventions-creations, to enhance innovation capability, and to promote the progress of science and technology and the development of economy and society.	Article 1 (unchanged)	
<p>Article 2. In this Law, "inventions-creations" mean inventions, utility models and designs.</p> <p>"Invention" means any new technical solution relating to a product, a process or improvement thereof.</p> <p>"Utility model" means any new technical solution relating to the shape, the structure or their combination, of a product, which is fit for practical use.</p> <p>"Design" means any new design of the shape, the pattern, or their combination, or the combination of the color with shape or pattern, of a product, which creates an aesthetic feeling and is fit for industrial application.</p>	<p>Article 2. In this Law, "inventions-creations" mean inventions, utility models and designs.</p> <p>"Invention" means any new technical solution relating to a product, a process or improvement thereof.</p> <p>"Utility model" means any new technical solution relating to the shape, the structure or their combination, of a product, which is fit for practical use.</p> <p>"Design" means any new design of the shape, the pattern, or their combination, or the combination of the color with shape or pattern, of the whole or a part of a product, which creates an aesthetic feeling and is fit for industrial application.</p>	<p>This makes it possible to protect a portion of a product, i.e. "partial design", which is currently not possible. Design practice in China will be more similar to that in many other jurisdictions and offers broader protection of design patents. Design patent right holders will be in a better position to protect themselves from infringers who may be able to avoid the risk of infringement by only copying their design points and using them in a different shaped product.</p> <p>As for graphic user interface (GUI), it should also be possible to protect the GUI itself, with the other parts of the product disclaimed with dotted lines. Even in the GUI itself, some parts may be disclaimed with dotted lines. It will be interesting to see what standard will be used in the examination of partial design application.</p>
Article 3. The patent administration department under the State Council is responsible for the patent work throughout the country. It receives and examines patent applications, and grant	Article 3 (unchanged)	

<p>patent right for inventions-creations in accordance with the law.</p> <p>The administrative authority for patent affairs under the people's governments of provinces, autonomous regions and municipalities directly under the central government are responsible for the administrative work concerning patents in their respective administrative areas.</p>		
<p>Article 4. Where an invention-creation for which a patent is applied for relates to the security or other vital interests of the State and is required to be kept secret, the application shall be treated in accordance with the relevant prescriptions of the State.</p>	<p>Article 4 (unchanged)</p>	
<p>Article 5. No patent right shall be granted for any invention-creation that is contrary to the laws or social morality or that is detrimental to public interest.</p> <p>No patent right shall be granted for any invention-creation where acquisition or use of the genetic resources, on which the development of the invention-creation relies, is not consistent with the provisions of the laws or administrative regulations.</p>	<p>Article 5 (unchanged)</p>	
<p>Article 6. An invention-creation made, by a person in execution of the tasks of the entity to which he belongs, or made by him mainly by using the material and technical means of the entity is a service invention-creation. For a service invention-creation, the right to apply for a patent belongs to the entity. After the application is approved, the entity shall be the patentee.</p> <p>For a non-service invention-creation, the right to apply for a patent belongs to the inventor or creator. After the application is approved, the inventor or creator</p>	<p>Article 6. An invention-creation made, by a person in execution of the tasks of the entity to which he belongs, or made by him mainly by using the material and technical means of the entity is a service invention-creation. For a service invention-creation, the right to apply for a patent belongs to the entity. After the application is approved, the entity shall be the patentee. The entity may dispose of the right to apply for patents and patent rights for its service invention-creations in accordance with the law, and promote the implementation and use of related invention-creations.</p>	<p>The revision affirms the entity's right to dispose of service inventions, such as assignment, license, and pledge, etc.</p>

<p>shall be the patentee.</p> <p>In respect of an invention-creation made by a person using the material and technical means of an entity to which he belongs, where the entity and the inventor or creator have entered into a contract in which the right to apply for and own a patent is provided for, such provisions shall apply.</p>	<p>For a non-service invention-creation, the right to apply for a patent belongs to the inventor or creator. After the application is approved, the inventor or creator shall be the patentee.</p> <p>In respect of an invention-creation made by a person using the material and technical means of an entity to which he belongs, where the entity and the inventor or creator have entered into a contract in which the right to apply for and own a patent is provided for, such provisions shall apply.</p>	
<p>Article 7. No entity or individual shall prevent the inventor or creator from filing an application for a patent for a non-service invention-creation.</p>	<p>Article 7 (unchanged)</p>	
<p>Article 8. For an invention-creation jointly made by two or more entities or individuals, or made by an entity or individual in execution of a commission given to it or him by another entity or individual, the right to apply for a patent belongs, unless otherwise agreed upon, to the entity or individual that made, or to the entities or individuals that jointly made, the invention-creation. After the application is approved, the entity or individual that applied for it shall be the patentee.</p>	<p>Article 8 (unchanged)</p>	
<p>Article 9. For any identical invention-creation, only one patent right shall be granted. Where an applicant files on the same day applications for both patent for utility model and patent for invention relating to the identical invention-creation, and the applicant declares to abandon the patent for utility model which has been granted and does not terminate, the patent for invention may be granted.</p>	<p>Article 9 (unchanged)</p>	

Where two or more applicants file applications for patent for the identical invention-creation, the patent right shall be granted to the applicant whose application was filed first.		
<p>Article 10. The right of patent application and the patent right may be assigned.</p> <p>Any assignment, by a Chinese entity or individual, of the right of patent application, or of the patent right, to a foreigner, a foreign enterprise or any other foreign organization shall proceed by going through the formalities as provided by the relevant laws and administrative regulations.</p> <p>Where the right of patent application or the patent right is assigned, the parties shall conclude a written contract and register it with the patent administration department under the State Council. The patent administration department under the State Council shall announce the registration. The assignment shall take effect as of the date of registration.</p>	Article 10 (unchanged)	
<p>Article 11. After the grant of the patent right for an invention or utility model, except where otherwise provided for in this Law, no entity or individual may, without the authorization of the patentee, exploit the patent, that is, make, use, offer to sell, sell, or import the patented product, or use the patented process, and use, offer to sell, sell or import the product directly obtained by the patented process, for production or business purposes.</p> <p>After the grant of the patent for a design, no entity or individual may, without the authorization of the patentee, exploit the patent, that is, make, offer to sell, sell, or import the product incorporating its or his patented design, for</p>	Article 11 (unchanged)	

production or business purposes.		
Article 12. Any entity or individual exploiting the patent of another shall conclude with the patentee a license contract for exploitation and pay the patentee a fee for the exploitation of the patent. The licensee has no right to authorize any entity or individual, other than that referred to in the contract, to exploit the patent.	Article 12 (unchanged)	
Article 13. After the publication of the application for a patent for invention, the applicant may require the entity or individual exploiting the invention to pay an appropriate fee.	Article 13 (unchanged)	
Article 14. Where any patent for invention, belonging to any state-owned enterprise or institution, is of great significance to the interest of the State or to the public interest, the competent departments concerned under the State Council and the people's government of provinces, autonomous regions or municipalities directly under the central government may, after approval by the State Council, decide that the patented invention be spread and applied within the approved limits, and allow designated entities to exploit that invention. The exploiting entity shall, according to the regulations of the State, pay a fee for exploitation to the patentee.	(Renumbered as Article 49)	This article relates to licensing of patent right and hence is moved to the chapter of “Special License”.
Article 15. Where the co-owners of a patent application or a patent have concluded an agreement on the exercising of the right, the agreement shall apply. In the absence of such agreement, any co-owner may independently exploit the patent or license another party to exploit the patent through non-exclusive license; any fee for the exploitation obtained from licensing others to exploit the patent shall be distributed among the co-owners.	Article 14 (renumbered; content unchanged)	

Except for the circumstances as provided in the preceding paragraph, a jointly-owned patent application or patent shall be exercised with the consent of all co-owners.		
Article 16. The entity that is granted a patent right shall award to the inventor or creator of a service invention-creation a reward and, upon exploitation of the patented invention-creation, shall pay the inventor or creator a reasonable remuneration based on the extent of spreading and application and the economic benefits yielded.	Article 15. The entity that is granted a patent right shall award to the inventor or creator of a service invention-creation a reward and, upon exploitation of the patented invention-creation, shall pay the inventor or creator a reasonable remuneration based on the extent of spreading and application and the economic benefits yielded. The State encourages entities granted patent rights to implement property rights incentives, adopting stock rights, options, dividends, etc., so that inventors or creators can reasonably share the benefits of innovation.	While Article 6 affirms the entity's right to service inventions, this Article intends to encourage inventors to make inventions.
Article 17. The inventor or creator has the right to be named as such in the patent document. The patentee has the right to affix a patent indication on the patented product or on the package of that product.	Article 16 (renumbered; content unchanged)	
Article 18. Where any foreigner, foreign enterprise or other foreign organization having no habitual residence or business office in China files an application for a patent in China the application shall be treated under is Law in accordance with any agreement concluded between the country to which the applicant belongs and China, or in accordance with any international treaty to which both countries are party, or on the basis of the principle of reciprocity.	Article 17 (renumbered; content unchanged)	
Article 19. Where any foreigner, foreign enterprise or other foreign organization having no habitual residence or business office in China applies for a patent or has other patent matters to attend to, in	Article 18 (renumbered; content unchanged)	

<p>China, it or he shall appoint a legally incorporated patent agency to act as his or its agent.</p> <p>Where any Chinese entity or individual applies for a patent or has other patent matters to attend to in the country, it or he may appoint a legally incorporated patent agency to act as its or his agent.</p> <p>The patent agency shall comply with the provisions of laws and administrative regulations, and handle patent applications and other patent matters according to the instructions of its clients. In respect of the contents of its clients' inventions-creations, except for those that have been published or announced, the agency shall bear the responsibility of keeping them confidential. The administrative regulations governing the patent agency shall be formulated by the State Council.</p>		
<p>Article 20. Where any entity or individual intends to file an application for patent abroad for any invention or utility model developed in China, it or he shall request in advance the patent administration department under the State Council for confidentiality examination. The procedures and duration etc. of the confidentiality examination shall be implemented in accordance with the regulations of the State Council.</p> <p>Any Chinese entity or individual may file an international application for patent in accordance with any international treaty concerned to which China is party. The applicant filing an international application for patent shall comply with the provisions of the preceding paragraph.</p> <p>The patent administration</p>	<p>Article 19 (renumbered; content unchanged)</p>	

<p>department under the State Council shall handle any international application for patent in accordance with the international treaty concerned to which China is party, this Law and the relevant regulations of the State Council.</p> <p>For an invention or utility model, if a patent application has been filed in a foreign country in violation of the provisions of the first paragraph of this Article, it shall not be granted patent right while filing application for patent in China.</p>		
	<p>Article 20. The principle of good faith shall be followed in applying for and exercising patent rights. Patent rights shall not be abused to damage public interests or the legitimate rights and interests of others.</p> <p>Abuse of patent rights to exclude or restrict competition, which constitutes monopolistic behavior, shall be dealt with in accordance with the Anti-Monopoly Law of the People's Republic of China.</p>	<p>Currently, there are several laws, regulations or judicial interpretations in place to address the abuse of intellectual property right. No substantive requirement was provided in this article. However, it provides a legal basis for litigation and it will be interesting to see how it is applied in litigation in the future.</p>
<p>Article 21. The patent administration department under the State Council and its Patent Reexamination Board shall handle any patent application and patent-related request according to law and in conformity with the requirements of being objective, fair and timely.</p> <p>The patent administration department under the State Council shall release patent information in a complete, correct and timely manner, and publish patent gazette on a regular basis.</p> <p>Until the publication or announcement of the application for a patent, staff members of the patent administration department under the State Council and other persons involved have the duty to</p>	<p>Article 21. The patent administration department under the State Council shall handle any patent application and patent-related request according to law and in conformity with the requirements of being objective, fair and timely.</p> <p>The patent administration department under the State Council shall strengthen the construction of a public service system for patent information, release patent information in a complete, correct and timely manner, provide basic patent data, publish patent gazette on a regular basis, and promote the dissemination and utilization of patent information.</p> <p>Until the publication or</p>	<ol style="list-style-type: none"> 1. The former Patent Reexamination Board was renamed as the Reexamination and Invalidation Department of CNIPA in 2019. 2. The amendment corresponds to the establishment of open license system. 3. It can also be expected that patent search and analysis tools available from CNIPA will be improved.

keep its contents confidential.	announcement of the application for a patent, staff members of the patent administration department under the State Council and other persons involved have the duty to keep its contents confidential.	
Chapter 2 Requirements for Grant of Patent Right	Chapter 2 Requirements for Grant of Patent Right	
<p>Article 22. Any invention or utility model for which patent right may be granted must possess novelty, inventiveness and practical applicability.</p> <p>Novelty means that, the invention or utility model does not form part of the prior art; nor has any entity or individual filed previously before the date of filing with the patent administration department under the State Council an application relating to the identical invention or utility model disclosed in patent application documents published or patent documents announced after the said date of filing.</p> <p>Inventiveness means that, as compared with the prior art, the invention has prominent substantive features and represents a notable progress, and that the utility model has substantive features and represents progress.</p> <p>Practical applicability means that, the invention or utility model can be made or used and can produce effective results.</p> <p>The prior art referred to in this Law means any technology known to the public before the date of filing in China or abroad.</p>	Article 22 (unchanged)	
<p>Article 23. Any design for which patent right may be granted shall not be a prior design, nor has any entity or individual filed before the date of filing with the patent administration department under the State Council an application relating to the identical design</p>	Article 23 (unchanged)	

<p>disclosed in patent documents announced after the date of filing.</p> <p>Any design for which patent right may be granted shall significantly differ from prior design or combination of prior design features</p> <p>Any design for which patent right may be granted must not be in conflict with the legitimate right obtained before the date of filing by any other person.</p> <p>The prior design referred to in this Law means any design known to the public before the date of filing in China or abroad.</p>		
<p>Article 24. An invention-creation for which a patent is applied for does not lose its novelty where, within six months before the date of filing, one of the following events occurred:</p> <p>(1) where it was first exhibited at an international exhibition sponsored or recognized by the Chinese Government;</p> <p>(2) where it was first made public a prescribed academic or technological meeting;</p> <p>(3) where it was disclosed by any person without the consent of the applicant.</p>	<p>Article 24. An invention-creation for which a patent is applied for does not lose its novelty where, within six months before the date of filing, one of the following events occurred:</p> <p>(1) it is made public for the first time for the purpose of public interest when a state of emergency or extraordinary situation occurs in the country;</p> <p>(2) where it was first exhibited at an international exhibition sponsored or recognized by the Chinese Government;</p> <p>(3) where it was first made public a prescribed academic or technological meeting;</p> <p>(4) where it was disclosed by any person without the consent of the applicant.</p>	<p>A new scenario is provided where the grace period is applicable. For example, if in order to respond to sudden epidemic diseases, certain technology useful to control the epidemic diseases is disclosed through use, it is still possible to get patent protection in China by taking advantage of this article.</p>
<p>Article 25. For any of the following, no patent right shall be granted:</p> <p>(1) scientific discoveries;</p> <p>(2) rules and methods for mental activities;</p> <p>(3) methods for the diagnosis or for the treatment of diseases;</p> <p>(4) animal and plant varieties;</p> <p>(5) substances obtained by means of nuclear transformation;</p> <p>(6) designs of two-dimensional printing goods, made of the pattern, the color or the</p>	<p>Article 25. For any of the following, no patent right shall be granted:</p> <p>(1) scientific discoveries;</p> <p>(2) rules and methods for mental activities;</p> <p>(3) methods for the diagnosis or for the treatment of diseases;</p> <p>(4) animal and plant varieties;</p> <p>(5) nuclear transformation methods and substances obtained by means of nuclear transformation;</p> <p>(6) designs of two-dimensional</p>	<p>Guidelines for Patent Examination already provide that nuclear transformation methods are non-patentable. This change makes the provisions consistent with each</p>

<p>combination of the two, which serve mainly as indicators. For processes used in producing products referred to in items (4) of the preceding paragraph, patent right may be granted in accordance with the provisions of this Law.</p>	<p>printing goods, made of the pattern, the color or the combination of the two, which serve mainly as indicators. For processes used in producing products referred to in items (4) of the preceding paragraph, patent right may be granted in accordance with the provisions of this Law.</p>	<p>other.</p>
<p>Chapter 3 Application for Patent</p>	<p>Chapter 3 Application for Patent</p>	
<p>Article 26. Where an application for a patent for invention or utility model is filed, a request, a description and its abstract, and claims shall be submitted.</p> <p>The request shall state the title of the invention or utility model, the name of the inventor, the name and the address of the applicant and other related matters.</p> <p>The description shall set forth the invention or utility model in a manner sufficiently clear and complete so as to enable a person skilled in the relevant field of technology to carry it out; where necessary, drawings are required. The abstract shall state briefly the main technical points of the invention or utility model.</p> <p>The claims shall be supported by the description and shall define the extent of the patent protection sought for in a clear and concise manner.</p> <p>Where an invention-creation is developed relying on the genetic resources, the applicant shall indicate, in the application documents, the direct and original source of such genetic resources; where the applicant fails to indicate the original source, he or it shall state the reasons thereof.</p>	<p>Article 26 (unchanged)</p>	
<p>Article 27. Where an application for a patent for design is filed, a request, drawings or photographs</p>	<p>Article 27 (unchanged))</p>	

<p>of the design and a brief explanation of the design shall be submitted.</p> <p>The relevant drawings or photographs submitted by the applicant shall clearly indicate the design of the product for which patent protection is sought.</p>		
<p>Article 28. The date on which the patent administration department under the State Council receives the application shall be the date of filing. If the application is sent by mail, the date of mailing indicated by the postmark shall be the date of filing.</p>	<p>Article 28 (unchanged)</p>	
<p>Article 29. Where, within twelve months from the date on which any applicant first filed in a foreign country an application for a patent for invention or utility model, or within six months from the date on which any applicant first filed in a foreign country an application for a patent for design, he or it files in China an application for a patent for the same subject matter, he or it may, in accordance with any agreement concluded between the said foreign country and China, or in accordance with any international treaty to which both countries are party, or on the basis of the principle of mutual recognition of the right of priority, enjoy a right of priority.</p> <p>Where, within twelve months from the date on which any applicant first filed in China an application for a patent for invention or utility model, he or it files with the patent administration department under the State Council an application for a patent for the same subject matter, he or it may enjoy a right of priority.</p>	<p>Article 29. Where, within twelve months from the date on which any applicant first filed in a foreign country an application for a patent for invention or utility model, or within six months from the date on which any applicant first filed in a foreign country an application for a patent for design, he or it files in China an application for a patent for the same subject matter, he or it may, in accordance with any agreement concluded between the said foreign country and China, or in accordance with any international treaty to which both countries are party, or on the basis of the principle of mutual recognition of the right of priority, enjoy a right of priority.</p> <p>Where, within twelve months from the date on which any applicant first filed in China an application for a patent for invention or utility model, or within six months from the date on which any applicant first filed in China an application for a patent for design, he or it files with the patent administration department under the State Council an application for a patent for the same subject matter, he or it may enjoy a right of priority.</p>	<p>Domestic priority for designs is made available. It is to be noted that for inventions and utility models, when domestic priority is claimed, the first filed Chinese application will be deemed to be withdrawn. It is not possible to keep both applications. It is reasonable to believe that this also applies to design applications.</p>

<p>Article 30. Any applicant who claims the right of priority shall make a written declaration when the application is filed, and submit, within three months, a copy of the patent application document which was first filed; if the applicant fails to make the written declaration or to meet the time limit for submitting the copy of the patent application document, the claim to the right of priority shall be deemed not to have been made.</p>	<p>Article 30. Any applicant who claims the right of priority for an invention or utility model patent, shall make a written declaration when the application is filed, and submit, within 16 months from the date of filing the first application, a copy of the patent application document which was first filed.</p> <p>Any applicant who claims the right of priority for a design patent, shall make a written declaration when the application is filed, and submit, within three months, a copy of the patent application document which was first filed.</p> <p>If the applicant fails to make the written declaration or to meet the time limit for submitting the copy of the patent application document, the claim to the right of priority shall be deemed not to have been made.</p>	<p>The amendment provides an extended time limit for submitting certified priority documents for invention and utility model applications, which is more friendly to applicants.</p>
<p>Article 31. An application for a patent for invention or utility model shall be limited to one invention or utility model. Two or more inventions or utility models belonging to a single general inventive concept may be filed as one application.</p> <p>An application for a patent for design shall be limited to one design. Two or more similar designs for the same product or two or more designs which are incorporated in products belonging to the same class and sold or used in sets may be filed as one application.</p>	<p>Article 31 (unchanged)</p>	
<p>Article 32. An applicant may withdraw his or its application for a patent at any time before the patent right is granted.</p>	<p>Article 32 (unchanged)</p>	
<p>Article 33. An applicant may amend his or its application for a patent, but the amendment to the application for a patent for invention or utility model may not</p>	<p>Article 33 (unchanged)</p>	

go beyond the scope of disclosure contained in the initial description and claims, and the amendment to the application for a patent for design may not go beyond the scope of the disclosure as shown in the initial drawings or photographs.		
Chapter 4 Examination and Approval of Application for Patent	Chapter 4 Examination and Approval of Application for Patent	
Article 34. Where, after receiving an application for a patent for invention, the patent administration department under the State Council, upon preliminary examination, finds the application to be in conformity with the requirements of this Law, it shall publish the application promptly after the expiration of eighteen months from the date of filing. Upon the request of the applicant, the patent administration department under the State Council publishes the application earlier.	Article 34 (unchanged)	
<p>Article 35. Upon the request of the applicant for a patent for invention, made at any time within three years from the date of filing, the patent administration department under the State Council will proceed to examine the application as to its substance. If without any justified reason, the applicant fails to meet the time limit for requesting examination as to substance, the application shall be deemed to have been withdrawn.</p> <p>The patent administration department under the State Council may, on its own initiative, proceed to examine any application for a patent for invention as to its substance when it deems it necessary.</p>	Article 35 (unchanged)	
Article 36. When the applicant for a patent for invention requests examination as to substance, he or it shall furnish pre-filing date	Article 36 (unchanged)	

<p>reference materials concerning the invention.</p> <p>For an application for a patent for invention that has been already filed in a foreign country, the patent administration department under the State Council may ask the applicant to furnish within a specified time limit documents concerning any search made for the purpose of examining that application, or concerning the results of any examination made, in that country. If, at the expiration of the specified time limit, without any justified reason, the said documents are not furnished, the application shall be deemed to have been withdrawn.</p>		
<p>Article 37. Where the patent administration department under the State Council, after it has made the examination as to substance of the application for a patent for invention, finds that the application is not in conformity with the provisions of this Law, it shall notify the applicant and request him or it to submit, within a specified time limit, his or its observations or to amend the application. If without any justified reason, the time limit for making response is not met, the application shall be deemed to have been withdrawn.</p>	<p>Article 37 (unchanged)</p>	
<p>Article 38. Where, after the applicant has made the observations or amendments, the patent administration department under the State Council finds that the application for a patent for invention is still not in conformity with the provisions of is Law, the application shall be rejected.</p>	<p>Article 38 (unchanged)</p>	
<p>Article 39. Where it is found after examination as to substance that there is no cause for rejection of the application for a patent for invention, the patent administration department under the State Council shall make a</p>	<p>Article 39 (unchanged)</p>	

<p>decision to grant the patent right for invention, issue the certificate of patent for invention, and register and announce it. The patent right for invention shall take effect as of the date of the announcement.</p>		
<p>Article 40. Where it is found after preliminary examination that there is no cause for rejection of the application for a patent for utility model or design, the patent administration department under the State Council shall make a decision to grant the patent right for utility model or the patent right for design, issue the relevant patent certificate, and register and announce it. The patent right for utility model or design shall take effect as of the date of the announcement.</p>	<p>Article 40 (unchanged)</p>	
<p>Article 41. The patent administration department under the State Council shall set up a Patent Reexamination Board. Where an applicant for patent is not satisfied with the decision of the said department rejecting the application, the applicant may, within three months from the date of receipt of the notification, request the Patent Reexamination Board to make a reexamination. The Patent Reexamination Board shall, after reexamination, make a decision and notify the applicant for patent.</p> <p>Where the applicant for patent is not satisfied with the decision of the Patent Reexamination Board, it or he may, within three months from the date of receipt of the notification, institute legal proceedings in the people's court.</p>	<p>Article 41. Where an applicant for patent is not satisfied with the decision of the patent administration department under the State Council rejecting the application, the applicant may, within three months from the date of receipt of the notification, request the patent administration department under the State Council to make a reexamination. The patent administration department under the State Council shall, after reexamination, make a decision and notify the applicant for patent.</p> <p>Where the applicant for patent is not satisfied with the decision of the patent administration department under the State Council, it or he may, within three months from the date of receipt of the notification, institute legal proceedings in the people's court.</p>	<p>The former Patent Reexamination Board was renamed as the Reexamination and Invalidation Department of CNIPA in 2019.</p>
<p>Chapter 5 Duration, Cessation and Invalidation of Patent Right</p>	<p>Chapter 5 Duration, Cessation and Invalidation of Patent Right</p>	
<p>Article 42. The duration of patent right for inventions shall be twenty years, the duration of patent right for utility models and</p>	<p>Article 42. The duration of patent right for inventions shall be twenty years, the duration of patent right for utility models shall</p>	

<p>patent right for designs shall be ten years, counted from the date of filing.</p>	<p>be ten years, and the duration of patent right for designs shall be fifteen years, counted from the date of filing.</p> <p>Where an invention patent right was granted after the expiration of four years from the date of filing of the invention patent application and the expiration of three years from the date of the substantive examination request, the patent administration department under the State Council shall, at the request of the patentee, provide compensation for the duration of the patent right with respect to the unreasonable delay in the examination procedure of the invention patent, except for the unreasonable delay caused by the applicant.</p> <p>In order to compensate for the time spent in the review and marketing approval of new drugs, at the request of the patentee, the patent administration department under the State Council may grant compensation for the duration of the invention patent right related to the new drug which has been approved for marketing in China. The compensation period shall not exceed five years, and the total effective period of patent right after the new drug is approved for marketing shall not exceed 14 years.</p>	<p>1. Design patent term is extended to 15 years. It is believed that China is getting ready to join the Hague Agreement.</p> <p>2. It is believed that the patent term adjustment was made in line with the China-US phase 1 trade agreement. Detailed calculation method is likely to be available in the upcoming amended Implementing Regulations or Guidelines for Patent Examination.</p> <p>3. In the current law “Bolar exemption” is provided in Article 69 (new Article 75), i.e. use of a drug patent for the purpose of application for drug approval is not considered a patent infringing activity, but extension of patent term is not available. The inclusion of patent term extension better balances the interest of innovative drug companies and the generic companies. There are no detailed provisions available yet regarding how the extension will be calculated.</p>
<p>Article 43. The patentee shall pay an annual fee beginning with the year in which the patent right was granted.</p>	<p>Article 43 (unchanged)</p>	
<p>Article 44. In any of the following cases, the patent right shall cease before the expiration of its duration:</p> <p>(1) where an annual fee is not paid as prescribed;</p> <p>(2) where the patentee abandons his or its patent right by a written declaration.</p> <p>Any cessation of the patent right</p>	<p>Article 44 (unchanged)</p>	

shall be registered and announced by the Patent administration department under the State Council.		
Article 45. Where, starting from the date of the announcement of the grant of the patent right by the patent administration department under the State Council, any entity or individual considers that the grant of the said patent right is not in conformity with the relevant provisions of this Law, it or he may request the Patent Reexamination Board to declare the patent right invalid.	Article 45. Where, starting from the date of the announcement of the grant of the patent right by the patent administration department under the State Council, any entity or individual considers that the grant of the said patent right is not in conformity with the relevant provisions of this Law, it or he may request the patent administration department under the State Council to declare the patent right invalid.	The former Patent Reexamination Board was renamed as the Reexamination and Invalidation Department of CNIPA in 2019.
<p>Article 46. The Patent Reexamination Board shall examine the request for invalidation of the patent right promptly, make a decision on it and notify the person who made the request and the patentee. The decision declaring the patent right invalid shall be registered and announced by the patent administration department under the State Council.</p> <p>Where the patentee or the person who made the request for invalidation is not satisfied with the decision of the Patent Reexamination Board declaring the patent right invalid or upholding the patent right, such party may, within three months from receipt of the notification of the decision, institute legal proceedings in the people’s court. The people’s court shall notify the person that is the opponent party of the party in the invalidation procedure to appear as a third party in the legal proceedings.</p>	<p>Article 46. The patent administration department under the State Council shall examine the request for invalidation of the patent right promptly, make a decision on it and notify the person who made the request and the patentee. The decision declaring the patent right invalid shall be registered and announced by the patent administration department under the State Council.</p> <p>Where the patentee or the person who made the request for invalidation is not satisfied with the decision of the patent administration department under the State Council declaring the patent right invalid or upholding the patent right, such party may, within three months from receipt of the notification of the decision, institute legal proceedings in the people’s court. The people’s court shall notify the person that is the opponent party of the party in the invalidation procedure to appear as a third party in the legal proceedings.</p>	The former Patent Reexamination Board was renamed as the Reexamination and Invalidation Department of CNIPA in 2019.
Article 47. Any patent right which has been declared invalid shall be deemed to be non-existent from the beginning.	Article 47 (unchanged)	

<p>The decision declaring the patent right invalid shall have no retroactive effect on any judgment or mediation decision of patent infringement which has been pronounced and enforced by the people's court, on any decision concerning the handling of a dispute over patent infringement which has been complied with or compulsorily executed, or on any contract of patent license or of assignment of patent right which has been performed prior to the declaration of the patent right invalid; however, the damage caused to other persons in bad faith on the part of the patentee shall be compensated.</p> <p>If, pursuant to the provisions of the preceding paragraph, the monetary damage for patent infringement, the fees for exploitation of the patent or fees for the assignment of the patent right is not returned, but such non-return is obviously contrary to the principle of equity, all or part of the preceding payments shall be returned.</p>		
<p>Chapter 6 Compulsory License for Exploitation of Patent</p>	<p>Chapter 6 Special License for Exploitation of Patent</p>	
	<p>Article 48. The patent administration department under the State Council and the administrative authority for patent affairs under local people's government shall, in conjunction with relevant departments at the same level, take measures to strengthen public services for patents and promote the implementation and use of patents.</p>	<p>The 4th amendment emphasizes on exploitation and use of patent.</p>
<p>Article 14 is moved here.</p>	<p>Article 49. Where any patent for invention, belonging to any state-owned enterprise or institution, is of great significance to the interest of the State or to the public interest, the competent departments concerned under the State Council and the people's government of provinces,</p>	<p>Article 14 is moved here.</p>

	<p>autonomous regions or municipalities directly under the central government may, after approval by the State Council, decide that the patented invention be spread and applied within the approved limits, and allow designated entities to exploit that invention. The exploiting entity shall, according to the regulations of the State, pay a fee for exploitation to the patentee.</p>	
	<p>Article 50. Where a patentee voluntarily declares in writing to the patent administration department of the State Council that he is willing to license any entity or individual to exploit his patent, and specifies the method and standard for payment of license fees, the patent administration department of the State Council shall make an announcement and implement open license. Where an open license statement is filed for utility model and design patents, a patent right evaluation report shall be provided.</p> <p>Where the patentee withdraws the open license statement, it shall be submitted in writing and be announced by the patent administration department under the State Council. If an open license statement is withdrawn through announcement, the validity of the open license granted earlier shall not be affected.</p>	<p>The open license system draws on the practice of countries like UK, Germany, etc. In essence, the open licensing system hopes to use government public services to promote the connection between the supply and demand of patented technology and promote the commercialization of patents. Such a system is beneficial to universities and research institutions to commercialize their technology.</p>
	<p>Article 51. If any entity or individual intending to implement an open-licensed patent, after it or he notifies the patentee in writing and pays the license fee in accordance with the announced licensing fee payment method and standard, it or he obtains the license to exploit the patent.</p> <p>During the implementation period of the open license, the annual patent fee paid by the patentee</p>	<p>In order to encourage patentees to offer open license and promote commercialization of patented</p>

	<p>shall be reduced or exempted accordingly.</p> <p>The patentee who implements the open license may grant an ordinary license after negotiating with the licensee on the license fee, but shall not grant an exclusive license or a sole license for the patent.</p>	technologies, the article offers reduced or waived annuities to the licensors of open license.
	<p>Article 52. If relevant parties have a dispute over the implementation of an open license, it shall be resolved through negotiation; if the parties are unwilling to negotiate or if the negotiation fails, they may request the patent administration department under the State Council for mediation, or institute legal proceedings in the people's court.</p>	One feature of China's patent dispute resolution system is the dual tracks of administrative and judicial routes. These are also available for disputes with respect to open license.
<p>Article 48. Under any of the following circumstances, the patent administration department under the State Council may, upon the request of an entity or individual which is qualified to exploit the invention or utility model, grant a compulsory license to exploit the patent for invention or utility model:</p> <p>(1) where the patentee, after the expiration of three years from the date of the grant of the patent and the expiration of four years from the date of filing, does not exploit or does not sufficiently exploit the patent without any justified reason;</p> <p>(2) where the exercising of the patent right by the patentee is legally determined as an act of monopoly, for the purposes of eliminating or reducing the adverse effects of the act on competition.</p>	<p>Article 53 (renumbered; content unchanged)</p>	
<p>Article 49. Where a national emergency or any extraordinary state of affairs occurs, or where the public interest so requires, the patent administration department under the State Council may grant a compulsory license to exploit the</p>	<p>Article 54 (renumbered; content unchanged)</p>	

patent for invention or utility model.		
Article 50. For the purposes of public health, the patent administration department under the State Council may grant a compulsory license to manufacture a pharmaceutical product which has been granted patent right and export it to countries or regions specified in the relevant international treaties to which China is party.	Article 55 (renumbered; content unchanged)	
<p>Article 51. Where the invention or utility model for which the patent right has been granted involves important technical advance of considerable economic significance in relation to another invention or utility model for which a patent right has been granted earlier and the exploitation of the later invention or utility model depends on the exploitation of the earlier invention or utility model, the patent administration department under the State Council may, upon the request of the later patentee, grant a compulsory license to exploit the earlier invention or utility model.</p> <p>Where, according to the preceding paragraph, a compulsory license is granted, the patent administration department under the State Council may, upon the request of the earlier patentee, also grant a compulsory license to exploit the later invention or utility model.</p>	Article 56 (renumbered; content unchanged)	
Article 52. Where the invention-creation involved in the compulsory license relates to the semi-conductor technology, the exploitation thereof shall be limited only for the purpose of public interest or under the condition as provided in Article 48(2) of this Law.	Article 57 (renumbered; content unchanged)	
Article 53. Except for compulsory licenses granted in accordance with Article 48(2) or Article 50 of	Article 58 (renumbered; content unchanged)	

<p>this Law, the exploitation of any compulsory license shall be executed predominately for the supply of the domestic market.</p>		
<p>Article 54. Any entity or individual requesting, in accordance with the provisions of Article 48(1) or Article 51 of this Law, a compulsory license for exploitation shall furnish proof to show that it or he has made requests for authorization from the patentee to exploit its or his patent on reasonable terms and conditions, and such efforts have not been successful within a reasonable period of time.</p>	<p>Article 59 (renumbered; content unchanged)</p>	
<p>Article 55. The decision made by the patent administration department under the State Council granting a compulsory license for exploitation shall be notified promptly to the patentee concerned, and shall be registered and announced.</p> <p>In the decision granting the compulsory license for exploitation, the scope and duration of the exploitation shall be specified on the basis of the reasons justifying the grant. If and when the circumstances which led to such compulsory license cease to exist and are unlikely to recur, the patent administration department under the State Council may, after review upon the request of the patentee, terminate the compulsory license.</p>	<p>Article 60 (renumbered; content unchanged)</p>	
<p>Article 56. Any entity or individual that is granted a compulsory license for exploitation shall not have an exclusive right to exploit and shall not have the right to authorize exploitation by any others.</p>	<p>Article 61 (renumbered; content unchanged)</p>	
<p>Article 57. The entity or individual that is granted a compulsory license for exploitation shall pay to the patentee a reasonable exploitation fee, or deal with the issue of</p>	<p>Article 62 (renumbered; content unchanged)</p>	

exploitation fee according to relevant provisions of the international treaties to which China is party. Where the exploitation fee is paid, the amount shall be negotiated by both parties. Where the parties fail to reach an agreement, the patent administration department under the State Council shall adjudicate.		
Article 58. Where the patentee is not satisfied with the decision of the patent administration department under the State Council granting a compulsory license for exploitation, or where the patentee or the entity or individual that is granted the compulsory license for exploitation is not satisfied with the ruling made by the patent administration department under the State Council regarding the fee payable for exploitation, it or he may, within three months from the date of receipt of the notification, institute legal proceedings in the people's court.	Article 63 (renumbered; content unchanged)	
Chapter 7 Protection of Patent Right	Chapter 7 Protection of Patent Right	
<p>Article 59. The extent of protection of the patent right for invention or utility model shall be determined by the terms of the claims. The description and the appended drawings may be used to interpret the content of the claims.</p> <p>The extent of protection of the patent right for design shall be determined by the design of the product as shown in the drawings or photographs. The brief explanation may be used to interpret the design of the product as shown in the drawings or photographs.</p>	Article 64 (renumbered; content unchanged)	
Article 60. Where a dispute arises as a result of the exploitation of a patent without the authorization of the patentee, that is, the infringement of the patent right of	Article 65 (renumbered; content unchanged)	

<p>the patentee, it shall be settled through consultation by the parties. Where the parties are not willing to consult with each other or where the consultation fails, the patentee or any interested party may institute legal proceedings in the people's court, or request the administrative authority for patent affairs to handle the matter. When the administrative authority for patent affairs handling the matter considers that the infringement is established, it may order the infringer to stop the infringing act immediately. If the infringer is not satisfied with the order, he may, within 15 days from the date of receipt of the notification of the order, institutes legal proceedings in the people's court in accordance with the Administrative Procedure Law of the People's Republic of China. If within the said time limit, such proceedings are not instituted and the order is not complied with, the administrative authority for patent affairs may approach the people's court for compulsory execution. The said authority handling the matter may, upon the request of the parties, mediate in the amount of compensation for the damage caused by the infringement of the patent right. If the mediation fails, the parties may institute legal proceedings in the people's court in accordance with the Civil Procedure Law of the People's Republic of China.</p>		
<p>Article 61. Where any infringement dispute relates to a patent for invention for a process for the manufacture of a new product, any entity or individual manufacturing the identical product shall furnish proof to show that the process used in the manufacture of its or his product is different from the patented process.</p> <p>Where any infringement dispute relates to a patent for utility model</p>	<p>Article 66. Where any infringement dispute relates to a patent for invention for a process for the manufacture of a new product, any entity or individual manufacturing the identical product shall furnish proof to show that the process used in the manufacture of its or his product is different from the patented process.</p> <p>Where any infringement dispute relates to a patent for utility model</p>	<p>Currently only patentees or the licensees that have the right to launch law suits have the right to request patent right evaluation</p>

<p>or design, the people's court or the administrative authority for patent affairs may ask the patentee or any interested party to furnish an evaluation report of patent made by the patent administration department under the State Council after having conducted search, analysis and evaluation of the relevant utility model or design, and use it as evidence for hearing or handling the patent infringement dispute.</p>	<p>or design, the people's court or the administrative authority for patent affairs may ask the patentee or any interested party to furnish an evaluation report of patent made by the patent administration department under the State Council after having conducted search, analysis and evaluation of the relevant utility model or design, and use it as evidence for hearing or handling the patent infringement dispute. Patentees, interested parties or accused infringers can also proactively furnish a patent right evaluation report.</p>	<p>reports. In the 4th amendment of the patent law, not only the patentee can request the CNIPA to produce the patent right evaluation report but the defendant is also able to do so. It provides a new vehicle for alleged infringers to defend themselves.</p> <p>However, for a party that is not involved in an infringement law suit but is concerned with potentially infringement on a utility model or a design patent, it is still not possible to request a patent right evaluation report from CNIPA.</p>
<p>Article 62. In a patent infringement dispute, where the alleged infringer has evidence to prove that the technology or design exploited by it or him forms part of prior art or is prior design, such exploitation does not constitute infringement of patent right.</p>	<p>Article 67 (renumbered; content unchanged)</p>	
<p>Article 63. Where any person passes off a patent, he shall, in addition to bearing his civil liability according to law, be ordered by the administrative authority for patent affairs to correct his act, and the order shall be announced. His illegal earnings shall be confiscated and, in addition, he may be imposed a fine of not more than four times his illegal earnings and, if there is no illegal earnings, a fine of not more than RMB 200,000 Yuan. Where the infringement constitutes a crime, he shall be prosecuted for his criminal liability.</p>	<p>Article 68. Where any person passes off a patent, he shall, in addition to bearing his civil liability according to law, be ordered by the authority responsible for patent enforcement to correct his act, and the order shall be announced. His illegal earnings shall be confiscated and, in addition, he may be imposed a fine of not more than five times his illegal earnings and, if there is no illegal earnings or if the illegal earnings is less than RMB 50,000 Yuan, a fine of not more than RMB 250,000 Yuan. Where the infringement constitutes a crime, he shall be prosecuted for his criminal liability.</p>	<p>This amendment strengthens the administrative protection of patent rights through increasing the penalties for passing-off patents.</p>
<p>Article 64. When investigating and prosecuting the suspected act of passing off a patent, the administrative authority for patent affairs may, based on the evidence obtained, query the parties concerned, and investigate the relevant circumstances of the</p>	<p>Article 69. When investigating and prosecuting the suspected act of passing off a patent, the authority responsible for patent enforcement may, based on the evidence obtained, take the following measures: (1) query the parties concerned,</p>	

<p>suspected illegal act; carry out an on-the-spot inspection of the site where the party's suspected illegal acts took place; review and reproduce the contracts, invoices, account books and other relevant materials related to the suspected illegal act; examine the products relevant to the suspected illegal act and may seal up or withhold the products proved to be passing off the patented product.</p> <p>When the administrative authority for patent affairs performs its functions and duties specified in the preceding paragraph in accordance with the law, the interested party shall assist and cooperate and shall not refuse or interfere the performance.</p>	<p>and investigate the relevant circumstances of the suspected illegal act; (2) carry out an on-the-spot inspection of the site where the party's suspected illegal acts took place; (3) review and reproduce the contracts, invoices, account books and other relevant materials related to the suspected illegal act; (4) examine the products relevant to the suspected illegal act; and (5) seal up or withhold the products proved to be passing off the patented product.</p> <p>When handling patent infringement disputes at the request of the patentee or interested parties, the administrative authority for patent affairs may take the measures listed in items (1), (2), and (4) of the preceding paragraph.</p> <p>When the authority responsible for patent enforcement or the administrative authority for patent affairs performs its functions and duties specified in the preceding two paragraphs in accordance with the law, the interested party shall assist and cooperate and shall not refuse or interfere the performance.</p>	<p>Local IP offices which are responsible for enforcing patent rights in the administrative route still were not given strong power such as access to accounting records and confiscation of infringing goods. They have such power only in handling of patent passing-off cases. The reason might be that patent infringement cases involve complicated technology and thorough analysis of claims and allegedly infringing technical solutions.</p>
	<p>Article 70. The patent administration department of the State Council may handle patent infringement disputes that have a significant influence in the country at the request of the patentee or the interested party.</p> <p>The administrative authority for patent affairs under local people's government shall handle patent infringement disputes at the request of the patentee or the interested party, and may handle the cases of infringement of the same patent right within its administrative area together; for cases of cross-regional infringement of the same patent</p>	<p>The article further improves the administrative enforcement system for patent rights. It provides a more efficient way for the right holder to deal with infringing acts spreading in a wide range of geographical or administrative regions.</p>

	right, it may request the administrative authority for patent affairs under the local people's government at a higher level to handle it.	
<p>Article 65. The amount of compensation for the damage caused by the infringement of the patent right shall be assessed on the basis of the actual losses suffered by the right holder because of the infringement; where it is difficult to determine the actual losses, the amount may be assessed on the basis of the profits the infringer has earned because of the infringement. Where it is difficult to determine the losses the right holder has suffered or the profits the infringer has earned, the amount may be assessed by reference to the appropriate multiple of the amount of the exploitation fee of that patent under a contractual license. The amount of compensation for the damage shall also include the reasonable expenses of the right holder incurred for stopping the infringing act.</p> <p>Where it is difficult to determine the losses suffered by the right holder, the profits the infringer has earned and the exploitation fee of that patent under a contractual license, the people's court may award the damages of not less than RMB 10,000 Yuan and not more than RMB 1,000,000 Yuan in light of such factors, as the type of the patent right, the nature and the circumstances of the infringing act.</p>	<p>Article 71. The amount of compensation for the damage caused by the infringement of the patent right shall be assessed on the basis of the actual losses suffered by the right holder because of the infringement, or the profits the infringer has earned because of the infringement. Where it is difficult to determine the losses the right holder has suffered or the profits the infringer has earned, the amount may be assessed by reference to the appropriate multiple of the amount of the exploitation fee of that patent under a contractual license. For willful infringement of patent rights, if the circumstances are serious, the amount of compensation for the damage may be determined not less than one time and not more than five times the amount determined in accordance with the above method.</p> <p>Where it is difficult to determine the losses suffered by the right holder, the profits the infringer has earned and the exploitation fee of that patent under a contractual license, the people's court may award the damages of not less than RMB 30,000 Yuan and not more than RMB 5,000,000 Yuan in light of such factors, as the type of the patent right, the nature and the circumstances of the infringing act.</p> <p>The amount of compensation for the damage shall also include the reasonable expenses of the right holder incurred for stopping the infringing act.</p> <p>In order to determine the amount of compensation for the damage, where the right holder has tried its</p>	<ol style="list-style-type: none"> 1. It is no longer required that the actual loss must be tried first. Either actual loss or illegal gain can be used first. 2. The concept of willful infringement first appears in China's patent law. However, what constitute willful infringement may still need to be clarified in future litigation. 3. Punitive damages are formally affirmed in law. This is likely to increase the amount of damages in future litigation cases. 4. Increased lower and upper limits of statutory damages together with punitive damages create greater deterrence against potential infringers. 5. Reasonable cost is addressed in a separate paragraph which makes it clear that this is in addition to the calculated damage or statutory damage. 6. Reversed burden of proof reduce alleviate the difficulty for plaintiffs to collect evidence to

	<p>best to provide evidence and the account books and information related to the infringement are mainly in the possession of the infringer, the people's court may order the infringer to provide the account books and information related to the infringement; if the infringer does not provide it or provide fake accounting books or information, the people's court may refer to the claims of and the evidence provided by the right holder to determine the amount of compensation for the damage.</p>	<p>support claimed damages. This provision, together with punitive damages and increased statutory damages, will likely to significantly increase the amount of damages awarded in future litigation cases in China.</p>
<p>Article 66. Where any patentee or interested party has evidence to prove that another person is infringing or will soon infringe its or his patent right and that if such infringing act is not checked or prevented from occurring in time, it is likely to cause irreparable harm to it or him, it or he may, before any legal proceedings are instituted, petition the people's court to adopt measures to stop the relevant acts.</p> <p>When a petition is filed, the petitioner shall provide a security; if it or he fails to provide the security, the application shall be rejected.</p> <p>The people's court shall make a ruling within 48 hours after receiving the petition. Where there are special circumstances that require a delayed ruling, the court may make a ruling within another 48 hours. If the ruling is made to stop the relevant act, the ruling shall be enforced immediately. If any interested party is not satisfied with the ruling, it or he may apply for reconsideration once; the enforcement of the ruling shall not be suspended during the reconsideration.</p> <p>Where the petitioner fails to institute legal proceedings within 15 days after the people's court issued the ruling to stop the</p>	<p>Article 72. Where any patentee or interested party has evidence to prove that another person is committing or will soon commit an act that infringes its or his patent right or hinders the realization of its or his right and that that if such infringing act is not checked or prevented from occurring in time, it is likely to cause irreparable harm to it or him, it or he may, before any legal proceedings are instituted, petition the people's court in accordance with law to adopt measures to preserve property, order certain actions, or prohibit certain actions.</p>	<p>Provisions regarding preservation measures have been stipulated in relevant laws. Therefore, they are deleted herein.</p>

<p>relevant act, the people's court shall lift the measures.</p> <p>Where the petition is made in error, the petitioner shall compensate the respondent for the losses caused by stopping the relevant acts.</p>		
<p>Article 67. In order to stop patent infringement, under the circumstances where the evidence might be destroyed or where it would be difficult to obtain in the future, the patentee or the interested party may petition the people's court for evidence preservation before instituting legal proceedings.</p> <p>When adopting preservation measures, the people's court may order the petitioner to provide a security for the petition; if the petitioner fails to do so, the petition shall be rejected.</p> <p>The people's court shall make a ruling within 48 hours after receiving the petition; if the court rules to adopt preservation measures, the ruling shall be enforced immediately.</p> <p>Where the petitioner fails to institute legal proceedings within 15 days after the people's court adopted the preservation measures, the people's court shall lift the measures.</p>	<p>Article 73. In order to stop patent infringement, under the circumstances where the evidence might be destroyed or where it would be difficult to obtain in the future, the patentee or the interested party may petition the people's court in accordance with law for evidence preservation before instituting legal proceedings.</p>	<p>Provisions regarding preservation measures have been stipulated in relevant laws. Therefore, they are deleted herein.</p>
<p>Article 68. Prescription for instituting legal proceedings concerning the infringement of patent right is two years counted from the date on which the patentee or any interested party obtains or should have obtained knowledge of the infringing act.</p> <p>Where no appropriate fee for exploitation of the invention, subject of an application for patent for invention, is paid during the period from the publication of the application to the grant of patent</p>	<p>Article 74. Prescription for instituting legal proceedings concerning the infringement of patent right is three years counted from the date on which the patentee or any interested party knows or should have known the infringing act and the infringer.</p> <p>Where no appropriate fee for exploitation of the invention, subject of an application for patent for invention, is paid during the period from the publication of the application to the grant of patent</p>	<p>Time limit for instituting legal proceedings is extended to 3 years which further strengthens patent protection.</p>

<p>right, prescription for instituting legal proceedings by the patentee to demand the said fee is two years counted from the date on which the patentee obtains or should have obtained knowledge of the exploitation of his invention by another person. However, where the patentee has already obtained or should have obtained knowledge before the date of the grant of the patent right, the prescription shall be counted from the date of the grant.</p>	<p>right, prescription for instituting legal proceedings by the patentee to demand the said fee is three years counted from the date on which the patentee knows or should have known the exploitation of his invention by another person. However, where the patentee already knew or should have known before the date of the grant of the patent right, the prescription shall be counted from the date of the grant.</p>	
<p>Article 69. None of the following shall be deemed as infringement of the patent right:</p> <p>(1) where, after the sale of a patented product or a product obtained directly by a patented process by the patentee or any entity or individual authorized by the patentee, any other person uses, offers to sell, sell or imports that product;</p> <p>(2) where, before the date of filing of the application for patent, any person who has already made the identical product, used the identical process, or made necessary preparations for its making or using, continues to make or use it within the original scope only;</p> <p>(3) where any foreign means of transport which temporarily passes through the territory, territorial waters or territorial air space of China uses the patent concerned, in accordance with any agreement concluded between the country to which the foreign means of transport belongs and China, or in accordance with any international treaty to which both countries are party, or on the basis of the principle of reciprocity, for its own needs, in its devices and installations;</p> <p>(4) where any person uses the patent concerned solely for the purposes of scientific research and experimentation; or</p> <p>(5) where for the purposes of providing information needed for</p>	<p>Article 75 (renumbered; content unchanged)</p>	

the regulatory examination and approval, any person makes, uses or imports a patented medicine or a patented medical apparatus, and where any person makes, imports the patented medicine or the patented medical apparatus exclusively for such person.		
	<p>Article 76. In the process of review and marketing approval of a drug, if a dispute arises between the applicant for marketing approval of the drug and the relevant patentee or interested party due to the patent right related to the drug applying for registration, the relevant party may institute legal proceedings in the people's court and request a judgment be made on whether the technical solution related to the drug applying for registration falls within the scope of protection of the patent right of others' drug. The drug regulatory department of the State Council may, within the prescribed time limit, make a decision on whether to suspend the marketing approval of the relevant drug based on the effective judgment of the people's court.</p> <p>The applicant for marketing approval of a drug and the relevant patentee or interested party may also request an administrative ruling from patent administration department of the State Council for the dispute over the patent right related to the drug applying for registration.</p> <p>The drug regulatory department of the State Council, in conjunction with the patent administration department of the State Council, shall formulate specific measures for the connection between the marketing approval of drugs and the resolution of patent disputes in the stage of application for marketing approval of drugs, which shall be implemented after the approval of the State Council.</p>	<p>1. This article introduces the so-called "patent linkage system", which provides an early resolution mechanism for drug patent disputes, aiming to resolve potential patent disputes before relevant drugs are marketed. However, detailed rules still need to be formulated, such as experimental data protection period for drugs, and the establishment of China's Patent Information Registration Platform for Approved Drugs, equivalent to the corresponding content in "Approved Drug Products with Therapeutic Equivalence Evaluations" in the US, commonly known as the "Orange Book".</p> <p>2. As a Chinese feature, administrative resolution is also provided for this type of disputes.</p> <p>3. On September 11, 2020, the National Medical Products Administration and CNIPA jointly issued "Implementation Measures for the Early Resolution Mechanism for Drug Patent Disputes (Trial Version) (Draft for Comment)" for public comments. On April 25, 2018, the National Medical Products Administration issued "Implementation Measures for the Protection of Drug</p>

		Experimental Data (Trial Version)" for public comments. Neither one has been finalized and implemented yet. However, it is reasonable to expect that a full system similar to that established by Hatch-Waxman Act in the US will be available in China soon.
Article 70. Any person, who, for production and business purpose, uses, offers to sell or sells a patent infringement product, without knowing that it was made and sold without the authorization of the patentee, shall not be liable to compensate for the damage of the patentee if he can prove that he obtains the product from a legitimate channel.	Article 77 (renumbered; content unchanged)	
Article 71. Where any person, in violation of the provisions of Article 20 of this Law, files in a foreign country an application for a patent that divulges an important secret of the State, he shall be subject to disciplinary sanction by the entity to which he belongs or by the competent authority concerned at the higher level. Where a crime is established, the person concerned shall be prosecuted for his criminal liability according to the law.	Article 78 (renumbered; content unchanged)	
Article 72. Where any person usurps the right of an inventor or creator to apply for a patent for a non-service invention creation, or usurps any other right or interest of an inventor or creator, prescribed by this Law, he shall be subject to disciplinary sanction by the entity to which he belongs or by the competent authority at the higher level.	(Deleted)	
Article 73. The administrative authority for patent affairs may not take part in recommending any patented product for sale to the public or any such commercial activities. Where the administrative authority for patent affairs violates the	Article 79. The administrative authority for patent affairs may not take part in recommending any patented product for sale to the public or any such commercial activities. Where the administrative authority for patent affairs violates the	

provisions of the preceding paragraph, it shall be ordered by the authority at the next higher level or the supervisory authority to correct its mistakes and eliminate the bad effects. The illegal earnings, if any, shall be confiscated. Where the circumstances are serious, the persons who are directly in charge and other persons who are directly responsible shall be given disciplinary sanction in accordance with law.	provisions of the preceding paragraph, it shall be ordered by the authority at the next higher level or the supervisory authority to correct its mistakes and eliminate the bad effects. The illegal earnings, if any, shall be confiscated. Where the circumstances are serious, the persons who are directly in charge and other persons who are directly responsible shall be given sanction in accordance with law.	
Article 74. Where any State functionary working for patent administration or any other State functionary concerned neglects his duty, abuses his power, or engages in malpractice for personal gain, which constitutes a crime, shall be prosecuted for his criminal liability in accordance with law. If the case is not serious enough to constitute a crime, he shall be given disciplinary sanction in accordance with law	Article 80. Where any State functionary working for patent administration or any other State functionary concerned neglects his duty, abuses his power, or engages in malpractice for personal gain, which constitutes a crime, shall be prosecuted for his criminal liability in accordance with law. If the case is not serious enough to constitute a crime, he shall be given sanction in accordance with law	
Chapter 8 Supplementary Provisions	Chapter 8 Supplementary Provisions	
Article 75. Any application for a patent filed with, and any other proceedings before, the patent administrative department under the State Council shall be subject to the payment of a fee as prescribed.	Article 81 (renumbered; content unchanged)	
Article 76. This Law shall enter into force on April 1, 1985.	Article 82 (renumbered; content unchanged)	

Designing an Intellectual Property Dispute Settlement System for Effective Rights Protection

February 2019

Patent System Subcommittee
Intellectual Property Committee
Industrial Structure Council

Chronology of Patent System Subcommittee Meetings

The Patent System Subcommittee has engaged in considerations on a review of the intellectual property (IP) system to achieve more effective rights protection.

25th Subcommittee Meeting (Oct. 15, 2018)

1. Current status of the IP dispute settlement system
2. Invitation of suggestions on issues to consider in reviewing the IP dispute settlement system

26th Subcommittee Meeting (Nov. 21, 2018)

1. Issues to consider in reviewing the IP dispute settlement system
 - (a) Presentation from attorney Masakazu Iwakura
 - (b) Presentation from Keidanren (Japan Business Federation)
 - (c) Presentation from the Japan Chamber of Commerce and Industry
2. Results of invitation of suggestions on issues to consider in reviewing the IP dispute settlement system

27th Subcommittee Meeting (Dec. 11, 2018)

1. Direction of review of the IP dispute settlement system

28th Subcommittee Meeting (Dec. 25, 2018)

1. Discussion points in relation to strengthening evidence collection procedures
2. Discussion points in relation to damages calculation

29th Subcommittee Meeting (Jan. 10, 2019)

1. Strengthening evidence collection procedures
2. Review of damages calculation

30th Subcommittee Meeting (Jan. 25, 2019)

1. Clarification of elements to consider in Patent Act Article 102(3)
2. Presentation of draft report on the review of the IP dispute settlement system

31st Subcommittee Meeting (Feb. 15, 2019)

1. Completion of report

List of Patent System Subcommittee Members

Setsuko Asami	Professor, Graduate School of Management, Tokyo University of Science
Masami Ashidate	Professor, Graduate School of Law, Tohoku University
Kaori Iida	Professor, Institute of Research, Tokyo Medical and Dental University
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Tatsubumi Sato	Summary Judge, Intellectual Property Rights Department, Tokyo District Court
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Katsuji Hasegawa	Director, Meinan Machinery Works, Inc.
Kaoru Fujita	Patent Attorney/No. 2 Group Leader, Senior Director, IP Division, Kaneka Corporation
Kazuhiko Yamamoto	Professor, Graduate School of Law, Hitotsubashi University
Keizo Yamamoto	Professor, Graduate School of Law, Kyoto University
Takafumi Yamamoto	President and CEO, TODAI TLO Ltd.
Shigeharu Yoshii	President and CEO, IP Bridge Inc.
Observers (since the 28th Meeting on December 25, 2018)	
Japan Chamber of Commerce and Industry	
Keidanren (Japan Business Federation)	

(Titles omitted)

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Introduction

The emergence of new technologies like artificial intelligence (AI) and the Internet of Things (IoT) has propelled the world into a fourth Industrial Revolution. As this digital revolution breaks down walls between industries and fans open innovation, new players with new technologies and new business models are transforming the market landscape.

Small and medium enterprises (SMEs) can no longer survive just by relying on major export company customers. As the drivers of innovation, more and more startups are focused from the outset on taking their unique technologies to world markets.

To thrive in this new era, companies need to carefully safeguard the technologies they have developed, utilize them to earn revenue, and then move rapidly to develop further technologies. From another angle, it is also a great chance for companies with outstanding technologies to use these to leap ahead as innovation drivers.

As the foundation underpinning innovation, the intellectual property (IP) rights system must support both the acquisition and exercise of rights. To assist with rights acquisition, the Patent Act was amended last year to allow patent fees for SMEs to be halved as of April this year.

When it comes to exercising IP rights, however, the current system is somewhat lacking. To take process patents, for example, which are included in 35 percent of total patent applications, some firms have noted that when a patented process is used in the infringer's own factory, it can be difficult to gather the necessary evidence to prove the infringement. In the case of software patents, which have grown 1.5 times in the last decade, source code and other elements are easily changed and also often vast, so even if the defendant submits related documentation, it is still not easy to verify its authenticity. For B2B products which are not available on the market, companies have observed that defendants sometimes turn down requests for information disclosure about the volume of materials used, methods of use, and suppliers on the grounds that this is proprietary information, resulting in insufficient information to prove the infringement. An IPR system is meaningless if, even when a patentee has their rights infringed, it does not provide for a prompt and effective response and the patentee just gives up in frustration.

While successive improvements have been made to Japan's patent infringement litigation system over the years to enable users to exercise their IP rights as they should, evidence collection procedures in particular are not as effective as in the West, posing a considerable barrier to taking a case to court. With other countries recently moving to enhance their litigation systems to provide even more effective protection, Japan clearly needs to commit itself to an ongoing review of its IP litigation system while tracking these developments in other countries.

The Patent System Subcommittee has been engaged in deliberations on a review of the IP dispute settlement system since October 2018 with the aim of delivering an IP litigation system that ensures that patent infringement is not a winning option. This report summarizes the content of deliberations to date and makes recommendations for reviewing the IP system toward more effective rights protection.

I. Background to Review of Japan's Intellectual Property Dispute Settlement System

1. *Characteristics of patent infringements*

Patent infringements have the following characteristics compared to other property rights infringements.

First, patents are easily infringed. Patent rights are publicly disclosed, and infringing them does not require the theft of a physical object, nor are there any restrictions in terms of the time or place of infringement. As a result, infringements are difficult to discover and to prevent.

Second, patent infringements are difficult to prove. Because the infringer has possession of the evidence, it is hard for patentees to acquire particularly in relation to infringements of patents for production processes, B2B and other products not available on the market, and software.

Third, infringements are difficult to deter. The Patent Act provides for criminal charges, but these are seldom exercised due to the sheer technical difficulty of determining whether there has been an infringement.

Given these characteristics, where successive improvements have been made to Japan's existing patent infringement litigation system, Japan needs to commit itself to an ongoing review that recognizes and responds to technological and industrial structural change, making patent infringement unprofitable.

2. *Trends in other countries' systems*

(1) *United States*

In the United States, discovery (whereby the parties disclose evidence to each other) enables highly effective evidence collection. Discovery gives the various parties the right to demand evidence disclosure from the other party, while also obligating them to disclose their own evidence to the other party (Federal Rules of Civil Procedure (FRCP), 26(a) and 34(a)).

Under the US Patent Act, in the case of willful infringement, the court may also award enhanced damages of up to three times the amount found ("treble damages"; Patent Act, Section 284). This together with the jury system is considered to have led to high damages in the United States compared to other countries.

On the other hand, in the 2006 eBay case, the Supreme Court ruled that the patentee must demonstrate four requirements for an injunction to be allowed, namely: (1) that irreparable injury has been suffered; (2) that remedies available at law, such as monetary damages, are inadequate to compensate for that injury; (3) that there is a balance of hardships between the parties; and (4) that the public interest would not be disserved. Compared to Japan, where an injunction is automatically allowed if an infringement is recognized, the requirements for granting an injunction are therefore much more rigorous in the United States.

(2) United Kingdom

In the United Kingdom, as in the United States, the parties to the dispute disclose their evidence to each other, but the court limits the scope of disclosure to that which is reasonable and suited to the scale of the case (Civil Procedure Rules (CPR), Part 31).

There is also an inspection system whereby a representative of the plaintiff is authorized to enter any land or building in the possession of the other party for the purposes of inspecting relevant property and taking a sample of the relevant property (CPR, 25.1(1)(d)).

Where there is concern that evidence might be destroyed, a search order can be issued so that a supervising solicitor designated by the court can be admitted to any land or building in the possession of the other party to collect evidence (CPR, 25.1(1)(h), Civil Procedure Act 1997, Section 7).

Infringement litigation only determines the validity of the infringement, and damages are calculated in a separate proceeding. Once the court has acknowledged the fact of infringement, the parties normally reach a settlement out of court on the amount of damages, resolving the dispute. It is rare that a settlement is not reached and a suit for damages filed.

Cases where the damages are less than 500,000 pounds are handled in the Intellectual Property Enterprise Court (IPEC). The IPEC began operating in October 2013 and has overcome initial teething problems to win a good reputation for the way it handles IP disputes.

In the IPEC, the ceiling for litigation costs (which are borne by the losing party), legal fees included, is 50,000 pounds, while the ceiling for compensation is 500,000 pounds, limiting the amount of risk in the case of a loss.

(3) Germany

The German system is characterized by an inspection system whereby a court-appointed technical expert can enter the building or land in the possession of the other party to collect evidence (Patent Act, Section 140c), and by swift injunctions. The inspection system is used primarily before filing, with comparative weighting at the various procedural stages of the need for the plaintiff to prove the infringement and the need for the defendant to protect trade secrets.

With infringement suits, the judge rules on the existence of the infringement, and damages calculation is initially left to the parties to negotiate. Only if the parties cannot reach agreement is a separate suit brought to determine damages.

The validity of patent rights cannot be contested during an infringement suit, with patent validity and infringement handled in separate procedures. This makes it easier to be granted an injunction through an infringement suit, but there are also cases where procedures have been complicated by a patent becoming invalid after an injunction has been issued.

(4) East Asia

Moves have been underway in East Asia recent years to introduce punitive damages.

China already imposes punitive damages for trademark infringements, but the government has recently been working hard to boost the amount of damages, with the Chinese Patent Law to be amended to increase the amount of compensation to up to five

times and the ceiling for statutory damages raised from one million to five million yuan.¹ The State Council approved the draft amendment to the Patent Law in December 2018, with the amendment now before the Standing Committee of the National People's Congress for deliberation.

In Korea, treble damages have already been introduced in a limited number of areas such as the Subcontracting Act. The National Assembly also passed a bill in December 2018 to amend the Patent Act so that treble damages can be awarded for malicious patent and trade secret infringements (Patent Act Amendment, Article 128(8)), and this will enter into force six months from the date of promulgation (around June 2019). The amendment transfers the burden to the defendant, so that where the defendant denies the specific manner of the infringing action asserted by the patentee, they must present the specific manner of their action, or else the court may draw adverse inference (Patent Act Amendment, Article 126-2).

Treble damages were introduced under Taiwan's Patent Act in 2013 (Patent Act, Article 97).²

¹ In President Xi Jinping's November 2018 keynote speech at the opening ceremony of the first China International Import Expo, he noted that China would put in place a punitive damages system to significantly raise the cost for offenders.

² Double damages were introduced in 1994 and raised to treble in 2001, but removed entirely in 2011 before being reinstated in 2013.

II. Issues in Relation to the Intellectual Property Dispute Settlement System

The following issues were identified for consideration based on suggestions from users and other parties.

1. Difficulty of evidence collection

Patent infringements have been observed as difficult to prove particularly in relation to production processes, B2B and other products not available on the market, and software, so it must be made easier to collect the necessary evidence.

2. Reasonableness of damages calculation

According to a survey on how reasonable users find the amount of damages awarded in relation to patent infringements, the number of defendants who found the amount reasonable was much the same as those finding it unreasonable, whereas far more plaintiffs (patentees) felt that it was unreasonable.³ While this level of dissatisfaction does not necessarily mean that the damages awarded in Japan are actually low, the fact is that some users perceive this to be the case.

The amount of damages awarded can also be reduced based on various elements, and there has been some suggestion that the grounds for such reductions need to be clarified.

3. Clarification of court procedures

While Japan's court procedures may satisfy many parties, the litigation threshold seems daunting to many small and medium enterprises (SMEs) in particular, causing them to hold back on taking cases to court.

For example, some parties filing infringement suits have asked that a system be instituted for garnering a quick injunction followed by negotiations between the parties to determine the exact amount of damages. Such a system is already in place in Germany and the United Kingdom, with most infringement suits ending in a settlement between the parties.

Japan too should therefore lower the threshold for use of the litigation system by creating dispute resolution options geared to user needs and present these to users in an easily understandable format, drawing on the examples of other countries.

4. High litigation costs

SMEs that file an infringement suit and win can still find that legal costs outweigh the damages awarded so that they actually lose money. This situation could reduce the motivation to acquire and use patents. A better balance therefore needs to be created between the amount of damages that can be won through infringement litigation and the legal costs incurred.

³ 2015 Japan Patent Office Survey Report on Issues with the Industrial Property Rights System “Survey Report on Patent Systems and the Operation Thereof Contributing to Reinvigoration of the Intellectual Property Dispute Settlement System”

III. Specific Direction of Review

Four potential solutions were examined in relation to the issues identified above: strengthening evidence collection procedures; reviewing damages calculation procedures; considering the development of dispute settlement options; and considering reduction of the litigation cost burden.

1. *Strengthening evidence collection procedures*

(1) Overview

In the February 2018 Patent System Subcommittee report entitled “Reviewing the Intellectual Property System to Meet the Challenges of the Fourth Industrial Revolution,” we proposed strengthening evidence collection procedures by (i) introducing an in-camera procedure for determining the need for a document submission order; (ii) involving technical experts as fair and neutral third parties once a suit has been filed; and (iii) having third-party technical experts accompany inspectors prior to a suit being filed. The Act of Partial Revision of the Unfair Competition Prevention Act, Etc. that was subsequently passed in 2018 brought in the above in-camera procedure, and also locked in the involvement of technical advisors in that procedure.

A further means of strengthening evidence collection procedures would be to introduce an inspection system. In the March 2017 Patent System Subcommittee report entitled “Strengthening the Functions of Japan’s Intellectual Property Dispute Settlement System,” we noted that we would “continue to look carefully at the introduction of a legally enforceable inspection system.” Since that time, the need has grown for discussion aimed at strengthening evidence collection procedures in order to continue responding to changes in the industrial structure with reference also to developments in other countries revisiting their IP litigation systems.

The Subcommittee consequently examined the introduction of legally enforceable evidence collection procedures.

Patent rights are assigned for either product or process inventions (Patent Act, Article 2(3)). The former comprise inventions embodying a technical idea in the form of a product, while the latter are inventions embodying a technical idea through the combination of multiple phenomena and actions, etc., over the course of time. Specifically, this means inventions in relation to production processes, measurement processes, analysis processes, communication processes, and operation processes, etc.

With patents for production processes, etc., however, it is difficult to determine just by looking at documents, manufacturing machinery, and products whether there has been an infringement, with existing evidence examination procedures not necessarily enabling sufficient elucidation of the truth.

As for product inventions, the growing number of program-related inventions in recent years has been accompanied by a surge in the number of registrations of related software patents, which are becoming particularly important now with the permeation of IoT. In software patent infringement litigation, a document submission order can be issued to require the defendant to present source code and design specifications, but source code is

easily changed and also often vast, so it is difficult to determine whether the submitted source code is authentic and unchanged. If an expert could check source code and other details while operating systems on-site, it would become much easier to determine source code authenticity alongside confirming whether there has been an infringement. Having such a process in place should improve the likelihood that authentic evidence will be presented in response to a document submission order.

In infringement litigation cases in relation to process and software patents, the procedures for evidence collection by an expert should be legally enforceable.

Overseas, the following legally enforceable evidence collection systems have been introduced, with steps taken to garner the cooperation of the alleged infringer in uncovering the truth.

In the United States, as noted above in Section I.2.(1), discovery allows for comprehensive evidence collection.

The discovery process generally operates as follows: (a) a suit is filed; (b) the parties hold a discovery conference; (c) the parties submit to the court a discovery plan reflecting the results of that conference; (d) the court issues scheduling and other orders based on the discovery plan; and (e) the parties undertake discovery in line with the court's orders. The discovery plan notes the agreed timing and format of discovery (for example, the number of people who will be deposed and how electronic documents will be handled), as well as any issues on which the parties did not reach agreement and their respective claims in that regard.

Where agreement was not reached on the scope of disclosure, the party wishing to force disclosure can file a motion to compel. If the court grants the motion, it will issue a disclosure order (FRCP, 37(a)(1)). If a party fails to obey an order to provide or permit discovery, the court may penalize that party by making an adverse inference or by treating the failure as contempt of court (FRCP, 37(b)(2)(A)).

A party from whom discovery has been sought may also move for a protective order, which the court may issue if it recognizes that there is good cause for the non-disclosure of the information (FRCP, 26(c)(1)). Protective orders restrict those parties that can access evidence according to the level of confidentiality, with disclosure of highly confidential information limited to, for example, an outside attorney ("attorneys' eyes only"). In practice, before one party moves unilaterally for a protective order, it is common for both parties to consult and agree on the content of the protective order and jointly petition the court to issue the order based on that agreement.

Germany has an inspection system that can be used to collect evidence under Section 140c of the Patent Act. The procedure entails a technical expert appointed by the court in response to a request from the plaintiff entering the defendant's land or building to gather evidence. Requirements for such an inspection are stringent: (a) there must be sufficient likelihood of a legal infringement (*hinreichende Wahrscheinlichkeit*); (b) the document or item which is the subject of the motion must lie in the control of the defendant; (c) the inspection must be necessary to establish the claims of the patentee; and (d) the inspection must not be disproportionate for the case. This system is used primarily before a suit is filed, but because of the rigor of the requirements, there are only a handful of cases of utilization.

The usual process is: (a) the plaintiff moves for an inspection (at which point the plaintiff promises that only the plaintiff's attorney will be allowed to view the report, and that the plaintiff will be denied access to the information); (b) the court determines that the inspection requirements have been met and issues an inspection order; (c) the technical expert appointed by the court and a court enforcement officer enter the plaintiff's premises to conduct an inspection; (d) the technical expert creates a report on the results of the inspection and submits it to the court; (e) the court hears the views of the defendant and the plaintiff's attorney in-camera, then discloses the report with the confidential sections inked out.

If the defendant refuses to allow an inspection, they may be penalized by the court making an adverse inference or imposing criminal charges (Code of Civil Procedure, Articles 371 and 890).

Similar to Germany's inspection system, France operates a system called *saisie contrefaçon* that enables a technical expert and a court enforcement officer to enter the defendant's premises to gather evidence (Intellectual Property Code, Article 615-5). The requirement for an inspection is that the patent is valid in France. Because there is no need to establish infringement and the inspection can be of a product available on the market, unlike Germany's inspection system, *saisie contrefaçon* is used for a relatively high ratio of infringement litigation cases.

If the plaintiff refuses to allow an inspection, the court can impose criminal charges.

The United Kingdom has a disclosure system which, like the United States, has the parties present evidence to each other (CPR, Part 31). Where the scope of discovery in the United States is extremely wide, in the United Kingdom disclosure is kept "reasonable and proportional." The alleged infringer can also provide a process and/or product description ("PPD") instead of disclosing evidence related to the facts of the infringement (CPR, Part 63.9). A PPD is a document that provides a detailed explanation of the product and/or process which is alleged to infringe the plaintiff's patent, and is signed by a person on the side of the alleged infringer who has sufficient knowledge to verify the content. The signatory is questioned, and bears personal responsibility if an issue is found with PPD content. PPDs therefore provide an objective basis for the court in making a fair assessment of whether there has been an infringement.

The United Kingdom also has an inspection system that gives the plaintiff's attorney the authority to enter the defendant's premises to inspect items or gather samples relevant to the case (CPR, Part 25.1(1)(d)). Since most of the evidence required by the plaintiff to prove an infringement can be obtained through disclosure or PPD, however, this system is seldom used.

A search order can also be used to gather evidence (CPR, 25.1(1)(h), Civil Procedure Act 1997, Section 7). This is a system whereby, if there is concern that evidence might be destroyed, a search order can be issued so that a supervising solicitor appointed by the court can be admitted to a defendant's premises to gather and preserve evidence. While search orders are certainly used in trademark and copyright infringement litigation, however, they are very rarely used for patent infringement cases.

In cases where confidentiality is an issue, the court can restrict those persons who can access trade secrets to a "confidentiality club" at the request of the defendant, obligating those persons to secrecy. Generally, the court appoints a representative of the plaintiff and

a specific individual from the plaintiff's side (not the actual developer but rather an executive from the IP department) as confidentiality club "members".

Where a party does not obey court orders, the court can penalize them for being in contempt of court (CPR, 31.23), and can also issue an "unless order" requiring document disclosure, etc., with sanctions indicated for default (for example, rejecting that party's claims). These various systems allow for effective evidence collection.

Evidence collection systems in other countries could be said to be designed and operated in such a way that the various sub-systems are organically related and function as a whole. The same perspective will be important in considering an evidence collection procedure for Japan.

Given the above, the Patent Subcommittee engaged in the following considerations on an evidence collection procedure for Japan.

(a) *US-style discovery*

While US-style discovery enables examination to be based on a wide range of evidence, it also requires a huge amount of time and money, imposing a heavy burden on the parties involved. There was consequently little support for this approach either among Patent Subcommittee members or outside proposals.

(b) *German-style evidence collection procedures*

Germany's legally enforceable evidence collection procedures focus on the surprise element prior to litigation being filed in order to prevent evidence being destroyed or altered. Concern was expressed that, with this system, it might not be possible back at the stage before litigation has even been filed for the court to garner sufficient material to compare and balance the need to prove an infringement against the need to protect confidentiality, and that it might trigger a rash of over-exploratory and/or abusive inspection motions.

As for evidence collection procedures after a suit has been filed, on the other hand, while some concern was noted over a unilateral and legally enforceable search procedure, there was more enthusiasm for the introduction of an inspection system like Germany's at that particular stage. The suggestion was also made that such a system might be useful for collecting evidence in relation to process patents, large manufacturing devices, and computer programs. Some people agreed with the introduction of a German-style procedure as long as requirements were clarified; felt that it would be important in terms of boosting the parties' perception of the reasonableness of litigation; or suggested that the system should be introduced following sufficient consideration of order issuance requirements and measures to prevent confidential information from being leaked.

To strengthen evidence collection procedures, therefore, we will look first at introducing a new evidence collection procedure to apply after filing, together with measures to prevent abuse of the system and to protect confidential information, etc.

(2) Concept for new evidence collection procedures

In terms of the new evidence collection procedures,⁴ an appropriate system would be, as detailed below, for the court to respond to a motion by a party by ordering, on the basis of certain requirements and with full consideration for the protection of confidentiality, a fair and neutral expert to gather the necessary materials from the premises of the other party and create a report.

(a) Requirements for order issuance

Like the document submission orders and orders for presentation of objects for inspection that pertain under current legislation, material collection orders will be issued in response to a motion from the patentee claiming an infringement of their patent rights, and to prevent abuse of the procedures, the requirements for the issuance of an order will be (a) necessity, (b) probability, (c) supplementarity, and (d) reasonableness.

These procedures are intended to encourage the parties to submit evidence voluntarily, and should as a result be operated as a last resort based on the above requirements.

(i) Necessity: Necessity of collecting material to prove infringement

<Related opinion>

- Unlike procedures prior to litigation, there is no need to require “clear” necessity (Code of Civil Procedure Article 132-4) at this stage.

(ii) Probability: Recognition of probability that the defendant in a patent infringement suit has infringed a patent right

This requirement will be introduced on the grounds that the evidence collection procedures will impose a burden on the defendant. Specifically, for example, the requirement might be finding that there is sufficient reason to suspect an infringement.

(iii) Supplementarity: No other means of gathering evidence sufficient to determine whether there are facts that should be proved

This requirement—that there is no other means of gathering evidence sufficient to determine whether there are facts that should be proved—will be introduced on the grounds that the procedures will impose a burden on the defendant.

To avoid any delay in the ordering of these procedures, it should not be required that document submission orders and orders for presentation of objects for inspection have been issued ahead of the procedures.

⁴ A formal name for these procedures remains under consideration. The procedures will target patent infringement litigation.

<Related opinions>

- Given that a suggestion from the judge to a defendant who is being uncooperative over document submission that the procedures might be used is likely to have the effect of encouraging the defendant to submit the documents voluntarily without waiting for actual instigation of the procedures, this requirement should not be made too rigorous.
- If the difficulty of collecting material by other means (Code of Civil Procedure, Article 132-4) is made a requirement, it would prevent the issuance of an order when, for example, a product is easily obtainable on the market. Given that there are many cases where collecting material through document submission and the presentation of objects for inspection could not be described as difficult, however, judges might struggle to find cause to order these procedures, with the result that this system would be seldom used.
- To allow courts flexibility in their direction of litigation, this requirement should not be restricted to cases where, for example, there is no other sufficient means or where the defendant has refused other means.

- (iv) Reasonableness: Not corresponding to an instance where the court finds that it would be unreasonable to collect material given the amount of time required and the burden (financial or otherwise) that this would impose on the defendant, or other circumstances

Particularly in cases of process patent infringements, the collection of material could, depending on how this is approached, impose a heavy burden on the defendant, such as suspension of factory operations and submission of expensive sample products. Therefore, the requirement of reasonableness will be introduced to prevent such an unreasonable burden.

Like dispositions on the collection of material prior to the filing of a motion (Article 132-4 of the current Code of Civil Procedure), this requirement is expected to be operated as a reason for the dismissal of a motion that must be asserted by the defendant.

(b) *Motion items*

When submitting a motion, it will be necessary to set out: (i) the facts to be proven; (ii) documents and articles to be collected, and the relationship between these and the facts to be proved; (iii) the place/s of collection; (iv) the actions that the expert is to undertake; (v) the reasons that probability of a patent infringement will be found; and (vi) the reason that there is no other means of gathering material sufficient to determine whether there are facts to be proved.

Requiring the above to be set out will enable the court to confirm that the requirements for order issuance as noted in (a) are satisfied and prevent abuse of the system. The necessity requirement should be indicated in the above (i) facts to be proved and (ii) documents and articles to be collected, as well as the relationship between these and the facts to be proved.

The level of detail in the motion should be sufficient to enable understanding of the place/s where the expert should collect the material and the subject and scope of collection. Enabling the defendant's views to be heard so that consultation can be conducted prior to

the issuance of an order should allow further specification and facilitate the material collection procedure.

<Related opinions>

- Requiring detailed motion items will make the system difficult for startups to use.
- Consideration should be given to indicating in the annotations, etc., the extent of clarification required in the motion items.

(c) *Agent*

The expert who is the agent conducting these procedures shall enter the defendant's premises and conduct an inspection of the target documents and articles. As the expert could come into contact with a wide range of the defendant's trade secrets, and as the results of the inspection could impact on the outcome of proceedings, the court shall appoint a fair and neutral third party.

The court will be enabled to appoint an expert from a wide range of professions, including lawyers, patent attorneys and researchers, on the condition that the obligation to protect confidentiality is imposed.

<Related opinion>

- Experts should be restricted to those persons who already have an obligation to protect confidentiality and who have qualifications that will be stripped if they contravene that obligation.

To ensure the fairness and neutrality of the expert, a recusal system shall be adopted whereby a party can challenge the court's selection, and the party making that challenge shall have the right of immediate appeal against the court's decision of dismissal.

To facilitate the collection of materials, it shall be made possible for a court enforcement officer to accompany the expert where deemed necessary by the court.

For the sake of consistency with the court enforcement officer system, it should be specified that the court enforcement officer's role must be restricted to providing the necessary assistance to the expert, with the substantive elements of the procedures to be undertaken solely by the expert.

<Related opinions>

- The role of the court enforcement officer should be considered from the perspective of ensuring the fairness and transparency of material collection by the expert as a member of the private sector, with the officer notarizing the manner of undertaking actions that could become the premise for adverse inference.
- As experts are often unfamiliar with procedures of this nature, they should have to be accompanied by court enforcement officers.

Criminal penalties will be instituted to prevent experts undertaking the procedures from leaking secrets.

The scope of those secrets which experts are obligated to protect shall not be restricted to trade secrets as stipulated under the Unfair Competition Prevention Act (Article 2(6)), but shall rather include all secrets learned in the course of the execution of the experts' duties.

Along with these, if an expert is brought to the stand on matters related to secrets that he or she could have learned in the course of material collection, he or she may decline to be examined.

(d) *Order issuance procedure*

To ensure the smooth execution of the procedures, the court must hear the views of the defendant before issuing an order for the collection of materials.

<Related opinion>

- Even after an order has been issued, there should be an opportunity for both parties and the court to consult, with the expert also in attendance where necessary.

When the court responds to a motion by issuing an order for material collection, the defendant shall have the right of immediate appeal against that order given that the procedures impose an obligation to cooperate on the defendant, and the plaintiff shall have the same right in the case that the motion is dismissed.

While immediate appeal trials require a certain amount of time, they should be conducted as expeditiously as possible so as to facilitate the smooth operation of the system.

<Related opinion>

- If an immediate appeal is allowed at the order issuance stage, the appeal trial will take time and might interfere with the smooth operation of the system.

Where confidential information belonging to a third party is involved, the third party's interests can be taken into consideration by having the defendant contact the third party to have them create a document noting that they have confidential information that should be protected in the course of material collection and present this to court via the defendant.

(e) *Mode of material collection*

The expert shall engage in material collection only within the scope permitted by the court (subject, place, time, actions, etc.), creating a report on the results.

Specifically, the expert shall enter the defendant's premises, question the defendant, ask for documents to be presented and/or machinery to be operated, and engage in measurements, experiments and other actions as permitted by the court.

Entry into the premises of a third party other than the defendant is not envisaged.

To ensure the effectiveness of the procedures, the defendant shall be obligated to cooperate in material collection, and if the defendant refuses requests by the expert which are within the scope permitted by the court, an adverse inference shall be made at the discretion of the court.

In other countries, criminal punishment is imposed as a sanction, but given that in Japan, existing legislation provides that in the event that the defendant refuses to comply with a document submission order or order for presentation of objects for inspection, the court can make an adverse inference, adverse inference should be the measure to secure the effectiveness of the procedures, at least as a first step.

The plaintiff and/or their attorney shall not be permitted to be present for material collection in order to protect confidential information.

<Related opinions>

- At least the plaintiff's attorney should be permitted to be present so that the plaintiff's side can confirm that material collection is conducted appropriately.
- Given the risk of trade secrets leaking, the plaintiff's side should not be permitted to be present; it should be sufficient to ensure the quality of the expert and ensure that all matters are covered in preparatory meetings.

A representative of the defendant will be permitted to be present for material collection. If the defendant wishes a third party with an interest in the material collection to be present, it is envisaged that this may in some cases be permitted at the discretion of the court.

(f) *Handling of the report*

The expert shall compile and submit to the court a report on the results of material collection so that the plaintiff can use it later as evidence.

Because the report could include confidential information belonging to the defendant or to third parties that the defendant is obligated to protect, the court shall first send the report submitted by the expert to the defendant, and if there is confidential information in it, the defendant shall move within a certain time frame that all or part of the report be inked out, whereupon, as with document submission order procedures, should the court deem there to be reasonable grounds, the court shall allow all or part of the report to be inked out.

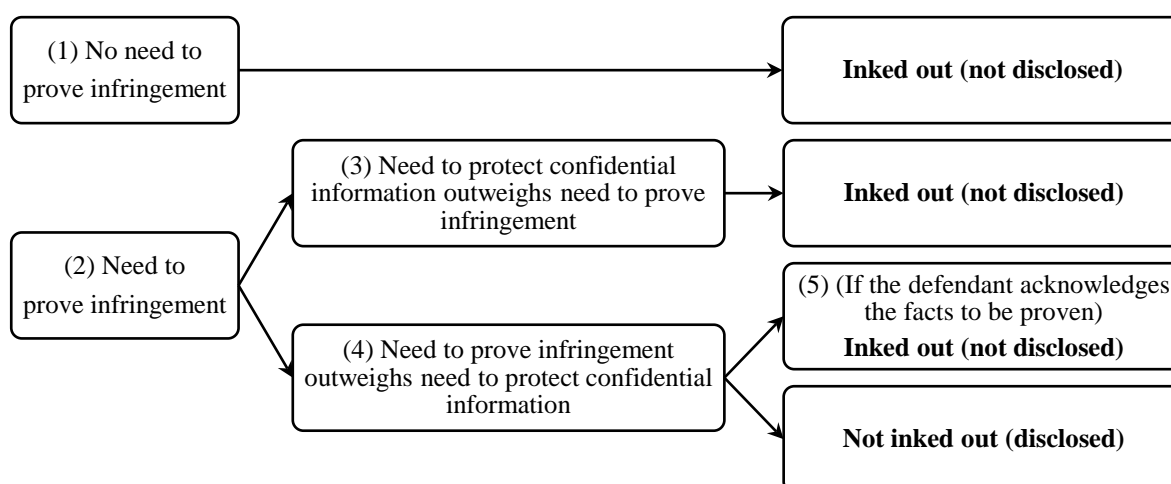
In determining whether or not there are reasonable grounds, as with document submission order procedures, the court shall compare and balance the need to prove an infringement against the need to protect confidentiality.

The process of determining whether there are reasonable grounds is shown in the flow chart below.

If the court determines there is no need to prove infringement (1), the part of the report related to confidential information will be inked out. If the court determines that the infringement does need to be proved (2), it will compare and balance the need to prove an infringement against the need to protect confidentiality. For example, if there is confidential information that is not directly necessary in proving infringement, and the infringement can be proved using other means without relying on that particular information, the need to prove infringement shall be regarded as outweighed by the need to protect confidential information (3), and the court shall order the relevant sections to be inked out. If, on the other hand, the need to prove infringement outweighs the need to protect confidential information (4), the court may decide that the confidential

information will not be inked out. Even in such a case, if the defendant still wants to avoid disclosing the confidential information at all cost, they can opt to have the confidential information inked out by acknowledging the facts to be proven (5).

Some parties feel that the scope of those secrets in relation to which the court shall make determination of reasonable grounds is not restricted to trade secrets as stipulated under the Unfair Competition Prevention Act (Article 2(6)).



In determining whether or not there are reasonable grounds, as with document submission order procedures, the court shall look at the content of the submitted report to make that determination. Disclosure procedures for the purpose of hearing the views of the plaintiff's side, the plaintiff's attorney included, shall be conducted and orders for the protection of confidentiality, issued only when the court deems it necessary.

Where the court discloses to the plaintiff's side, it shall not necessarily disclose the whole report before inking out, but shall only disclose the parts necessary in determining reasonable grounds.

<Related opinion>

- Where the court determines that there is no infringement, if none of the report is disclosed to the plaintiff's side before being inked out, the plaintiff will not be able to check whether information collection was conducted appropriately. The information should at least be disclosed to the plaintiff's attorney.

Great care needs to be taken in disclosing an un-inked report to the plaintiff personally. A mechanism should therefore be considered that requires the consent of the parties for disclosure to the plaintiff personally.

<Related opinions>

- Disclosure to the plaintiff personally should not be permitted for the purpose of hearing the plaintiff's views.
- Use of the procedures should not be permitted in the case of plaintiff self-representation.

The parties shall have the right of immediate appeal in relation to the inking out of the report. As the extent to which the report is inked out can shape the direction of the trial, both the plaintiff and the defendant shall have the right of immediate appeal.

As noted above, because confidential information might remain in a report even after the inking out procedure, pursuant to Article 92 of the Code of Civil Procedure, access to the inked-out report shall be restricted to the parties and/or their attorneys, and an order for the protection of confidentiality shall apply to those persons accessing the report.

<Related opinion>

- To restrict perusal by the plaintiff of a report that has been inked but still contains confidential information, in future, consideration should be given to introducing an “attorneys’ eyes only” mechanism by making use of an attorney mandatory for patent litigation.

For the parties to use the inked-out report as evidence in patent infringement litigation, the report must be copied and re-submitted as documentary evidence.

(g) *Costs*

Given that expert-related costs in the case of expert opinions are currently borne by the losing party, the expert-related component (travel, compensation, etc.) of the cost of the procedures shall be treated in the same way.

As with expert opinions and verification, those costs incurred by the defendant that are not necessarily included in the litigation costs (in relation to supplying samples, for example) shall be borne by the defendant, albeit with a mechanism in place whereby under the requirement of reasonableness an order cannot be issued if an unreasonable burden on the defendant is foreseen.

Given that the court will hear the views of both parties and consider reasonableness and the actions to be taken by experts, with the defendant consequently given ample opportunity to claim for the expected costs before the order for the procedures is issued, on top of which the order will also be subject to immediate appeal, it is not envisaged that a situation will emerge whereby unexpectedly high costs are incurred once the evidence collection procedures have actually begun.

An order for the procedures will not be issued if the defendant claims and proves that the motion is an abuse of the procedures and the court finds this to be so and that there is no cause for the motion. Further, if it is found that the motion is an abuse of the right to receive a trial, damages can be sought.

<Related opinions>

- While litigation costs in relation to the disposition on the collection of evidence prior to the filing of an action are borne by the plaintiff (Code of Civil Procedure, Article 132-9), could the costs of experts in relation to the procedures not be borne by the losing party?
- To prevent abuse of the procedures, the defendant should not be made to shoulder all the costs which they incur.

- If the costs are put on the plaintiff, the court will need to calculate in advance what costs will be incurred by the defendant, which could interfere with the smooth operation of the system and also make it difficult for SMEs to use.

The above system will be effective in preventing abuse of the procedures, and also has sufficient measures in place to protect confidential information, providing an appropriate balance between the interests of both the patentee as the plaintiff and the alleged infringer as the defendant.

2. Review of damages calculation methods

(1) Overview

Despite the ease of infringing patent rights, there are many cases where the causal relationship between the act of infringement and the damage sustained is not clear, making the damage difficult to prove. The Patent Act therefore includes special provisions in Article 102 on negative property damage (lost profits) as a special rule as to how damage should be calculated under Article 709 of the Civil Code.

Article 102(1) presumes the damage sustained to be the amount of profit per unit of articles which the patentee would have sold if there had been no such act of infringement, while Article 102(2) presumes the amount of profits earned by the infringer to be the amount of damage sustained by the patentee, and Article 102(3) puts the amount of damage sustained as the amount that the patentee would have been entitled to receive for the working of the patented invention.

In 1959 when the current law was formulated, Article 102 had a provision presuming the amount of damage to the patentee to be the infringer's profit (former Article 102(1), current Article 102(2)) and a provision enabling damages equivalent to the licensing fee to be claimed (former Article 102(2), current Article 102(3)).

The 1998 amendments added a new Article 102(1), presuming the damage (lost profits) to be the patentee's profit per unit multiplied by the quantity of articles sold by the infringer, with the reservation that if the infringer can prove the patentee's limited capability to work that quantity or any circumstances under which the patentee would have been unable to sell that quantity, the amount of presumed damages (lost profits) shall be deducted.

Where the 1959 Article 102(2) (current Article 102(3)) referred to an amount equivalent to the sum of money that would ordinarily have been received for the working of the patented invention, the 1998 amendments removed the term "ordinarily" so that an amount equivalent to the licensing fee can be sought which is appropriate given the specific circumstances between the parties to the suit.

Many precedents have built up since the 1998 amendments, and while some parties have no particular problem with the current level of damages, others are not satisfied with the calculation process and the standards it uses.

The Patent Subcommittee has therefore revisited damages calculation methods with a view to improving them.

(2) Specific issues

(a) Amount equivalent to the licensing fee for the portion deducted under Article 102(1) of the Patent Act

(i) Issue

Article 102(1) states in regard to lost profits that the patentee can claim damages on assigned articles, "the maximum of which shall be the amount attainable by the patentee ... in light of the capability of the patentee ... to work such articles," with this amount to be deducted in light of "any circumstances ... under which the patentee ... would have

been unable to sell the assigned quantity.” The relevant circumstances would generally include “the infringer’s marketing efforts,” “the existence of competing products in the market,” “outstanding characteristics of the infringing products,” and “the difference between the markets of the patentee and the infringer”.

Many different approaches have been taken in courts and academia as to whether Article 102(3) allows an amount equivalent to the licensing fee in relation to the deducted portion.

In terms of judicial precedents, up until the decision in the Chair-type Massage Machine case (IP High Court, Sept. 25, 2006), the trend was toward allowing that amount, but subsequently most judgements have converged on disallowing it (the negative view, deeming that all lost profit is evaluated under Article 102(1), and that there is no need to apply Article 102(3) on top of that in relation to the deducted portion).

Most academic theory leans either toward the affirmative view that compensation should be provided under Article 102(3) in relation to the deducted portion (in other words, the view that all lost profit is not evaluated under Article 102(1), and that Article 102(3) can be applied without exception to the deducted portion) or a compromise (the view that all lost profit is not evaluated under Article 102(1), and that Article 102(3) can be applied in some circumstances to the deducted portion).

From the standpoint of the affirmative and compromise views, if a patentee who is not working their patent claims damages under Article 102(3), they can claim damages equivalent to the licensing fee for the entire quantity of the articles assigned by the infringer, but in the case that a patentee who is working their patent claims damages under Article 102(1), if the presumed amount of damages has been deducted based on the capability of the patentee and any circumstances under which the patentee would have been unable to sell the assigned quantity, the patentee becomes unable to claim an amount equivalent to the licensing fee for that portion. This causes an imbalance between the two cases, and in particular disadvantages SMEs and venture companies with limited manufacturing and marketing capability.

From the standpoint of the negative view, the patentee can choose to seek compensation for damages under Article 102(1) or under Article 102(3), whichever amount is greater, and is consequently not disadvantaged at all.

In relation to the compromise position, some parties argue that the combined use of Article 102(3) should be allowed only in relation to the portion deducted because the patentee does not have the capability to work their patent as stipulated in the main clause of Article 102(1). Others support the combined use of Article 102(3) also for that part of the portion deducted for the reason of any circumstances under which the patentee would have been unable to sell the assigned quantity as stipulated in the proviso to Article 102(1).

Some support the former compromise position on the grounds that there have been no cases to date where the presumed damage has been deducted because of patentee capability and the court has refused to allow the combined use of Article 102(3), and that the compromise view that allows the combined use only for this portion is consistent with judicial precedents to date. Others, however, reject it because determination of the patentee capability issue and the issue of any circumstances under which the patentee

would have been unable to sell the assigned quantity is relative, making demarcation of the two difficult.

The latter compromise position has been received positively by some on the grounds that the deducted portion arises from the determination in relation to lost profits due to sales decrease that there is no causal relation between the infringement and the decrease in the sales volume of the plaintiff's product, with the court simply determining that it cannot be said that purchasers of the infringing products would have purchased the same volume of the plaintiff's products if there was no infringement. They argue that this does not change the fact that demand for the working by anyone else of the patented invention was lost as a result, and therefore an objective licensing fee in relation to that volume should be allowed as damages. On the other hand, those against this position note that "any circumstances" in the proviso to Article 102(1) includes a range of situations which would in practice be invoked together, so it would be difficult to clarify in which circumstances the combined use of Article 102(3) should be permitted.

Given the above views, the Patent Subcommittee looked at which of the positive, compromise, and negative positions should be adopted, and whether, in the case that the compromise position was chosen, an amount equivalent to the licensing fee should be allowed for the portion deducted based on the proviso to Article 102(1) in addition to the main clause of the same.

(ii) *Examination*

An amount equivalent to the licensing fee should be allowed for the portion deducted on the grounds of patentee capability as stipulated in the main clause of Article 102(1). For example, if the patent infringer sold 100 infringing units, but patentee capability meant that the patentee was only able to sell 30 units, under Article 102(1), the amount recognized as lost profit would be the amount derived by multiplying the amount of profit per unit by the 30 units that were within the patentee's capability, leading to the unsatisfactory situation of the profit from the other 70 units remaining in the infringer's hands.

<Related opinions>

- As there are no cases to date in which the court has clearly refused to combine Article 102(3) with Article 102(1) in relation to the portion deducted on the grounds of patentee capability, this approach would not contradict judgements to date.

Various opinions were expressed both for and against allowing an amount equivalent to the licensing fee for the portion deducted on the grounds of "any circumstances ... under which the patentee ... would have been unable to sell the assigned quantity" as in the proviso to Article 102(1), but no one put forward the negative view that an amount equivalent to the licensing fee should not be allowed for the portion deducted based on either the main clause or the proviso. It will therefore be clarified in the legislation that there are potentially circumstances in which an amount equivalent to the licensing fee could be allowed for the portion deducted due to patentee capability noted in the main clause and the portion deducted due to "any circumstances ... under which the patentee

... would have been unable to sell the assigned quantity.” Specific cases in which an amount equivalent to the licensing fee is allowed should be determined by the court.

<Related opinions>

- There is no room for allowing an amount equivalent to the licensing fee for the deducted portion in the proviso to Article 102(1).
- Given that, if there was no infringement, the patentee could potentially sell products using the patented invention but also license out the patent to other parties, an amount equivalent to the licensing fee should be allowed not just in cases of deduction for reason of patentee capability but also for the portion deducted for reason of the plaintiff’s marketing efforts and capability.
- The existing proviso to Article 102(1) only allows deduction of the number of articles sold, but the circumstances for deduction include some situations in which the contribution of the patented invention is acknowledged and others in which it is not. An amount equivalent to the licensing fee should be allowed only for those situations in which the contribution of the patented invention is acknowledged.
- It should be explicitly stipulated in the Act that an amount equivalent to the licensing fee will be allowed only for the portion for which the contribution of the patented invention is acknowledged. Cases in which the contribution of the patented invention would be acknowledged include those where the deduction was due to sales of rival products and a rival company was the licensee, and cases where the deduction was due to the difference in markets.
- As for the proposal of creating separate paragraphs in the text of Article 102(1) for deductions under the proviso and deductions of profit per unit under the main clause, and dealing with deductions based on the degree of contribution of the patented invention under the latter, even if it was conceptually possible to divide the two, in practice, there are many cases in which it would be difficult to draw a clear distinction between “any circumstances ... under which the patentee ... would have been unable to sell the assigned quantity” and the impact of the contribution of the patented invention as asserted by the parties, potentially causing confusion among practitioners.

Similar amendments will be made to other industrial property rights laws (namely, the Utility Model Act, the Design Act, and the Trademark Act; same in Section III.2.(2)(b) below).

<Related opinions>

- It is difficult to envision cases in which a trademark is licensed to an infringer, so it would be strange to allow the combination of Articles 102(1) and 102(3).
- The current considerations are not about future licenses but rather the method of calculating compensation for past damage, so there should be no difference between the Patent Act and other industrial property rights laws in terms of making the infringer pay compensation not only for the profit which might have been derived where the rights holder had sold the products but also the amount equivalent to the licensing fee.

There is no provision in Article 102(2) for deduction based on patentee capability as in the main clause of Article 102(1) or on “any circumstances ... under which the patentee ... would have been unable to sell the assigned quantity” as in the proviso to the clause, but there are many cases in which the court’s interpretation leads to deduction in the same way as under Article 102(1).

Accordingly, even without specific amendment to Article 102(2), if an amendment is introduced to allow an amount equivalent to the licensing fee in relation to the deducted portion under Article 102(1), it will be interpreted that similar treatment is also allowed for the deducted portion under Article 102(2).

(b) Clarification of elements of consideration in Article 102(3) of the Patent Act

It has been indicated in courts and academia to date that there are various circumstances existing between the parties to a case that need to be taken into consideration in calculating the amount equivalent to the licensing fee as stipulated in Article 102(3).

Specific elements of consideration include past cases of licensing, going rates in the industry, the content of the patented invention, the degree of contribution of the patented invention, the sales price, volume, and sales period of the infringing products, and the status of the parties in the market. These elements can either increase or decrease the amount equivalent to the licensing fee according to the particular case.

Unlike the above, the following elements of consideration would typically prompt only an increase.

The first is the finding that a valid patent has been infringed. Generally, the rate determined by the patentee’s past contracts and the general going rate on the market is set as the licensing fee before it has been determined in court whether the patent is valid or whether there has been an infringement (calculated *ex ante*). Where it is determined through a patent rights infringement suit that a valid patent was infringed, however, a higher rate than the original licensing fee should be allowed as the amount equivalent to the licensing fee.

Second is the loss of opportunity for the patentee to make a licensing decision. Where a patent right infringement is found, it means that the infringer has implemented that patent right without the permission of the patentee, depriving the patentee of the opportunity to decide whether or not to approve the license. This circumstance too should be considered as a factor potentially pushing up the amount equivalent to the licensing fee.

Third is the fact that the infringer has not taken on contractual constraints. Usually, when a licensing agreement is concluded, the licensee shoulders various constraints, such as payment of a guaranteed minimum, restriction of the grounds for contract termination, restriction of refund demands in the event of a patent becoming invalid, and payment periods. The fact that the infringer has implemented the patented invention without such

constraints should be considered as a factor potentially pushing up the amount equivalent to the licensing fee.

In drafting the amendments, rather than stipulating comprehensively all the envisaged factors, it would be preferable to make a general note that the court may, in the course of determining the amount equivalent to the licensing fee, consider the amount that the patentee might have derived had agreement been reached with the infringer as the price for implementing the patent—in other words, for example, the amount that would have been derived through negotiation between rational parties—opening the way for various elements of consideration to be read into the language.

<Related opinion>

- If those elements of consideration are not explicitly stipulated in the text, there is no guarantee that they will be considered.

It is worth bearing in mind that in Germany, reputable judges have backed the idea of calculating the amount equivalent to the licensing fee by presuming an amount twice as much as the licensing fee under an ordinary licensing agreement. It should be noted that in Germany, punitive elements are not accepted as grounds for allowing a higher amount.

In precedents and in practice, the going market rate is regarded as an important element of consideration in calculating the amount equivalent to the licensing fee, but *Royalty Rates Vol. 5*, issued by the Intellectual Property Research Center (Japan Institute for Promoting Invention and Innovation), which serves as one reference point, is primarily based on licensing fees in contracts for the introduction of foreign technology, and the data forming the basis for those is old, so it does not necessarily reflect the actual current status of ordinary licensing agreements. One issue will be how to compile the latest data to provide a reference for licensing fees which is based on the actual situation in recent years.

(c) *Compensation beyond actual damages*

(i) *Punitive damages*

Moves are afoot even in those East Asian countries and regions that have adopted a civil law approach (China, ROK and Taiwan, etc.) to introduce a punitive damages system like that of the United States as a means of increasing the amount of damages paid.

If Japan were to introduce such a system, however, it is highly likely that overseas rulings requiring expensive punitive damages would also have to be executed in Japan, and this point needs to be carefully considered. In addition, if punitive damages were limited to malicious cases, doubts have been expressed as to whether it would be possible to determine malice in Japan in the absence of a system equivalent to US discovery.

There was some feeling in the Patent Subcommittee and also among the proposals submitted that punitive damages are necessary from the perspective of deterring patent infringement, and that cases that can only be deemed malicious are in fact seen even in Japan, whereby a party infringes a patent comprising the heart of a patentee's business

while completely ignoring warnings from the patentee. Many, however, were opposed to punitive damages on the grounds that they do not fit with Japan's common law system, arguing that discussion needs to be deepened to ensure sufficient consideration of how to ascertain the requirements and effects of such damages so as to eliminate the possibility of a surge in the abusive exercise of patent rights.

Discussion should therefore continue to be deepened with consideration to the respective merits and demerits of introducing punitive damages, while also watching trends overseas in terms of both the introduction and operation of this system.

(ii) *Disgorgement of profits*

Introducing disgorgement of profits as a remedy would prevent profit from remaining in the hands of infringers and strengthen infringement deterrence functions, and as such would serve as an effective means of preventing an “infringer-wins” situation. In particular, it is hard to legitimize profit remaining in the hands of infringers. Considerable support for introducing this system was expressed by both Patent Subcommittee members and proposals particularly from SMEs and startup companies. It was also suggested that it would be worth looking into various possible levels of disgorgement.

There was some feeling, however, that further consideration was needed as to the appropriate legal framework for disgorgement of profits (tort, unjust enrichment, or *negotiorum gestio* (quasi-management without mandate), for example). Others also wondered why disgorgement should be permitted only under the Patent Act, and noted that preventing an infringer from profiting from patent infringement does not justify the patentee making a profit; that it would be difficult to calculate profit from infringements involving multiple patent rights; and that evidence collection procedures first need to be enhanced so as to develop a system for the calculation of appropriate damages within the scope of compensation for actual damages.

Disgorgement consequently requires further discussion based on the above views.

3. Consideration of additional options for dispute settlement

(1) Overview

While some are satisfied with the current court procedures for patent infringement litigation and the way they are operated, others felt that they were difficult for users to understand.

The Patent Subcommittee consequently examined patent infringement litigation with a view to preparing options for dispute settlement geared to the needs of users of court procedures for patent infringement litigation and presenting these to users in an easily understandable form.

(2) Consideration of a two-stage litigation system

The practice for many years in litigation claiming damages for patent infringements has been first to examine whether there has been an infringement, and where the court is convinced of an infringement, to proceed with an examination of the existence and scope of damages—in other words, a two-stage examination addressing infringement, then damages.

Generally in patent infringement litigation, the plaintiff files a suit seeking both an injunction (Patent Act, Article 100) and damages compensation (Civil Code, Article 709) together, and the court examines the issue of infringement common to both claims. Where the court is convinced of an infringement, it examines the issue of damages. Once that has been completed, a judgment is handed down on both claims at the same time.

The view was expressed by users of court procedures for patent infringement litigation that while, they ultimately want to receive damages in addition to the injunction, their top priority is an early injunction to prevent further infringement. They asked if it would therefore be possible to create a system whereby a solution in relation to specific damages and future licensing fees could be sought through negotiations between the parties while avoiding the completion of extinctive prescription in relation to damages. It was suggested that in some cases, providing this option could lead to early dispute settlement and keep down litigation costs.⁵

In patent infringement litigation in Germany and the UK, litigation to confirm only the existence of liability for damages is launched together with an injunction suit. Once the court has ruled in favor of the plaintiff, specific damages are left to negotiations between the parties, with a damages suit only filed when those negotiations break down (in other words, a two-stage litigation system). In most cases, a settlement is reached through negotiation.

The view was expressed that, as one type of patent infringement litigation, an injunction litigation could be filed together with a suit to confirm that the infringer should be obligated

⁵ In practice, there are also cases where an injunction suit is filed first to achieve an early injunction, with the damages suit filed later, but the extinctive prescription of damages (three years) arising out of an unlawful act applies in such cases.

to compensate for damages (below, “confirmation suit”). Specifically, the following system was proposed.

- Only when the patentee launches an injunction suit against a party who has willfully or negligently infringed the patentee’s patent rights can the patentee bring a suit to confirm that the infringer should take on the obligation to compensate the patentee for the damage caused by that infringement. In such suits, the court will examine and rule solely on infringement. Extinctive prescription of the right to claim damages in relation to that infringement will be suspended for the duration of the litigation and renewed once a final ruling is issued.
- If the negotiations between the parties following the rulings on the injunction and the confirmation suit break down, a separate suit will have to be filed to claim damages, but under *res judicata*, the parties in that second trial will not be able to make claims that contradict the content of the ruling from the first trial, with the court examining and ruling solely on the issue of damages.

It was suggested that such a mechanism would offer more options for dispute resolution, with the parties able to choose to use alternative dispute resolution procedures such as arbitration and mediation to set the amount of damages, etc. Wide public disclosure of the court rulings on patent infringements should also boost predictability for users of court procedures for patent infringement litigation.

Discussion at the Patent Subcommittee on this mechanism generated the following comments.

(a) *Early realization of injunctions*

In patent infringement litigation, there is a strong need for an immediate injunction, and there was some feeling that introducing a mechanism such as the above would allow an injunction just from examination of the infringement without having to go into damages, while a mechanism that enables a grace period for completion and renewal of extinctive prescription in relation to the right to seek damages would be an effective dispute settlement option.

Others responded that:

- First-stage litigation sometimes requires examination not only of the infringement but also of whether damage has been incurred, as well as the causal relationship, so examining the infringement alone would not be sufficient, while if a declaration of provisional execution is not attached to the injunction ruling, appeal or even final appeal procedures may be necessary to achieve a final injunction, so a mechanism such as the above would not have the desired result of an early injunction.
- Even where an appeal is made, a final ruling on the right to seek an injunction would be decided at the first and appeal hearings without examining all the damages, so it should still be possible to achieve an early injunction.

It was further suggested that an early injunction would also be possible by using a provisional disposition on the injunction (Civil Provisional Remedies Act, Article 32(2)), so it would not be necessary to allow a new type of suit.

In response to this, however, it was noted that because provisional disposition on an injunction is considered provisional dispute resolution, security is generally required (Civil Provisional Remedies Act, Article 14), so this new type of suit would need to be allowed in order to gain an injunction in the form of a final ruling.

(b) Rights under substantive law

Some argued that introducing a mechanism like the above would mean that negotiations between the parties on the amount of damages and licensing fees would be conducted with an injunction in place, which should in most cases result in an early agreement.

The following comments were made in response to this:

- Germany's two-stage litigation mechanism functions as a dispute settlement mechanism because the patentee has the right under substantive law to request the infringer to provide information. It is difficult in Japan to have that right granted, so this new type of suit would be unlikely to function.
- The right to seek the provision of information under German substantive law is based on the principle of good faith (German Civil Code, Section 242). There are precedents in Japan too where the court has recognized the obligation of a party who has entered into a certain social relationship to provide information in good faith,⁶ so it would not be difficult for Japan to adopt the same interpretation.
- Given the actual state of settlement negotiations in relation to litigation, it is doubtful whether talks would proceed smoothly solely through negotiations between the parties without the involvement of the court and the whole period until dispute settlement is likely to drag out.

(c) Reasonableness of negotiations between the parties

Negotiations between the parties in relation to the amount of damages and licensing fees, etc., that are conducted under an injunction would, it was suggested, put the party subjected to the injunction ruling at a disadvantage to the patentee in the negotiations, making it difficult to produce a mutually acceptable settlement.

Others felt that if the alleged infringer had accepted the final ruling on an injunction despite the opportunity to appeal, it was inevitable that the patentee would have the stronger position in negotiations on the calculation of damages.

(d) Efficiency of damages examinations

The view was expressed that in damages examinations, technical matters in relation to infringing products need to be considered in the calculation of damages and can overlap with infringement examinations. The new type of suit would mean that even at the second stage trial, the parties would have to put forward proof of their claims on technical matters again, with the judge again having to get to grips with the technology, which could detract from the efficiency of court examinations.

⁶ Supreme Court November 27, 2012, 2011 (Ju) 1400

In response to this view, it was noted that when a final ruling has been issued on validity and infringement, the judge in second-stage litigation should have sufficient capacity to examine damages based on the record of the first-stage trial.

Given the above, discussion should be deepened on a system suited to arrangements under Japan's Code of Civil Procedure.

4. Consideration of reduction of litigation cost burden

(1) Overview

According to some SMEs, legal fees and other litigation costs are so high that they have to think twice before filing a suit even when their rights are infringed. This could detract significantly from their motivation to acquire and utilize IP rights for painstakingly developed technologies, impacting negatively on SME innovation.

Consideration therefore needs to be given to an IP dispute settlement system that is easy for SMEs to use.

(2) Specific issues

(a) Allocation of the burden of legal fees, etc.

One way of easing the cost burden that litigation imposes on SMEs would be to have the loser shoulder costs such as legal fees, as is the practice in the United Kingdom and Germany.

The principle in the United States is that each party shoulders their own costs, but under the Patent Act, in exceptional cases, the loser can at the court's discretion be ordered to pay.

Under a loser-pays system, where the patentee was successful in their litigation, they would face a much lighter burden in terms of costs, improving the cost-benefit effect for successful patentees and also reducing the number of pointless suits.

If the patentee lost, however, they would have to shoulder some of the defendant's costs, which could conversely discourage patentees from filing suit in some cases.

In Japanese damages litigation, the court often designates around 10 percent of the admitted amount as legal fees, which often results in the fees being more expensive than the damages awarded, so there was some feeling that as a practical measure requiring the loser to shoulder the costs, the amount of damages which the court could allow for legal costs could be made more flexible.

Given the above, discussion should continue to be deepened on the allocation of legal fees and other costs in IP litigation.

(b) Other measures

A system could also be created to assist SMEs with litigation costs. Specifically, it was suggested that consideration should be given to a guarantee system and/or subsidies to help SMEs pay litigation fees. Discussion should be continued on support measures for SMEs bearing this view in mind.

JAPAN PATENT OFFICE (JPO) HANTEI (ADVISORY OPINION ON THE TECHNICAL SCOPE OF A PATENTED INVENTION)

GUIDELINES FOR EASY HANTEI DEMAND FILING

MAY, 1998
APPEALS DEPARTMENT
JPO

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(Note)

Reference to legal provisions are indicated in abbreviated form, i.e. Patent Law Article XX Section XX.

1. Hantei system

(1) What is Hantei ?

(1) The Japan Patent Office, having a high degree of expertise regarding technology, design and goods, will render an official *Hantei* in a strictly neutral manner regarding whether the subject article falls under the technical scope of the patented invention in question within as soon as three months from the time of filing of the *Hantei* demand.

(Note)

Since the patent right holder may, for the purpose of profit, exclusively manufacture, sell and exploit the patented invention, enforcement of this right will not only affect those in the same industry but will widely affect third parties. Even after lapse of the term of the patent right (20 years after the date of filing of the patent application, 15 years from the date of design registration), the patent right holder may demand damages for infringement that took place during the patent right term.

The following cases may therefore arise:

- i) A patent right holder wishing to know whether the goods of another party (object of working of invention) fall under the technical scope of the right holder's patented invention (infringement of the registered patent right),
- ii) A party other than the patent right holder wishing to know, when investing in research and development (R&D) or actually working an invention, whether the object of investment or working falls under the technical scope of another party's patented invention (The party wishes to work the invention without anxiety).

The *Hantei* system, in which the JPO, which granted the original patent right, renders an official opinion regarding the technical scope (including matters concerning equivalents) of the patented invention, has therefore been provided.

The *Hantei* system enables prevention of unnecessary patent disputes and is especially useful for venture businesses and small and medium enterprises for whom legal expenses may be burdensome.

(A duplicate of the demand for *Hantei* is delivered to the defendant for the purpose of notification.)

The *Hantei* system has been established for all areas of industrial property - patents, utility models, designs and trademarks.

- i) Technical Scope of Patented Invention (Patent Law Subsection 71(1), Patent Law Enforcement Ordinance Section 2, Patent Law Enforcement Rule Section 39 Form 57)
- ii) Technical Scope of Registered Utility Model (Utility Model Law Section 26)
- iii) Scope of Registered Design and the Like (Design Law Subsection 25(1))
- iv) Effect of Trademark Registration (Trademark Law Subsections 28(1) and 68(3))

Since *Hantei* results have no binding legal effects on defendants or third parties, it neither constitutes an official procedure of an administrative Office nor an exercise of public authority. However, since a *Hantei* is an official opinion of the JPO, the Office that granted the right in question, regarding the technical scope of the patented invention it is equivalent to an expert opinion, is sufficiently respected in society and is an authoritative opinion.

Moreover, in judgement Heisei 6 (1994) (O), 1083, Heisei 10 (1998) 2.24, the Japanese Supreme Court determined that, as a requirement for determining equivalency, it is necessary to determine whether the item in question is identical to publicly-known art at the time of filing of the patent application or could have been easily been made using publicly-known art at the time of filing of the patent application. The JPO, exploiting its capability as the authority carrying out patent examination, renders a decision regarding the scope of equivalency of the patent right upon rendering a decision on the patentability of the item in question as regards the possibility of substitution or ease of substitution. *Hantei* results contribute greatly to claims of equivalency in court.

(Note) What does "item in question" mean?

In demands for *Hantei*, if a demand has been filed in a case of the defendant actually working or having worked an invention or the patent right holder files a demand without a defendant, the "item in question" means the registered patent right of the demander and is customarily represented by the katakana character "イ."

Item in question is indicated as "item in question", "method in question", "drawing in question", "description in question", "design in question" or "trademark in question". When conflicting registrations are involved, the right of the recipient of the *Hantei* notification becomes the item in question. However, this party's right may also be directly indicated by its registration number (patent number).

If the item in question is a drawing, for the *Hantei* procedure to proceed smoothly the parties involved should confirm beforehand the drawing or a document expressing its contents in writing (virtual claim).

Items submitted by the recipient of the *Hantei* notification should be indicated by a character not used by the *Hantei* demander such as "item in question 2."

(2) Hantei usage

A. Usage of *Hantei* results

- (a) Confirmation of patent infringement (continuation or cessation of working)
- (b) Resolution of conflict by agreement of the parties involved in accordance with *Hantei* results (especially useful for petty disputes)
- (c) Use in legal proceedings:
 - i) As documentary evidence proving infringement
 - ii) As documentary evidence proving the item in question is an equivalent (evidence regarding the patentability of the item in question)
 - iii) As documentary evidence proving non-existence of cause of action in equitable action for injunction or in common law for claiming damages
- (d) Indication of patent numbers on goods
- (e) Use in negotiation for licensing, license agreement or transfer agreement

- (f) Use as an attachment to an application or information provision document (request of shoreline control of infringing goods) to customs
- (g) As a document providing the Police with grounds for accusation
- (h) As a document supporting a demand made to an arbitration institution
- (i) As evidence in a warning letter or rebuttal against such warnings
- (j) As a document to support claims of infringement of registered rights or antitrust laws
- (k) As grounds to demand to the courts the opportunity to state an opinion if a claim seeking provisional injunction is submitted

B. Advantages of the *Hantei* system

- (a) Results rendered with strict neutrality
- (b) Reasonable fee of 40,000 yen (paid to the JPO)
- (c) Speedy rendering of results (as soon as three months from filing of the demand for *Hantei*)
- (d) Easy procedures (the same as trial examination procedures)

(3) Eligible parties and time periods for *Hantei* demands

A. Eligible parties

Parties requesting *Hantei* opinions are not required to have legal interest in the *Hantei* result. However, from the perspective of the purpose of the system, the demander must briefly explain their need to demand a *Hantei* opinion in the space for reason in the *Hantei* demand form.

B. Eligible time period (Patent Registration Enforcement Regulation Ordinance Section 5)

The time period in which a *Hantei* opinion may be demanded for patents, utility models, designs and trademarks extends from the date of establishment of the right to 20 years after the registration lapses.

(4) *Hantei* demand procedures

Hantei demand procedures are conducted in a fair and deliberate manner similar to trial examination procedures (The current *Hantei* system was previously called the "Trial examination identifying scope of registration" under the law of Taisho 10 (1935)) and are stipulated in Chapter 2, Sections 2 to 11 of the Patent Law Enforcement Ordinance.

A separate *Hantei* demand must be filed for each item in question.

In the *Hantei* demand the item in question should be described in the greatest possible detail. Also, the publicly-known art (document) closest to the item in question should be described in the greatest possible detail at the time of filing of the patent application.

When a demand for *Hantei* is submitted, a copy of the demand is sent to the defendant if one exists (A copy of the demand is not sent to the defendant if it is considered that the defendant did essentially give a plea or if there is no defendant). This provides the other party with the opportunity to submit a plea within the designated time period of, in principle, thirty days from receipt of the copy of the demand for *Hantei* for parties with domicile in Japan and sixty days for those with domicile outside of Japan. Extension of this designated time period by demand is not possible (Patent Law Enforcement Ordinance Subsection 7(1)).

A copy of the plea shall be sent to the demander of the *Hantei* opinion

(Patent Law Enforcement Ordinance Subsection 7(2)).

After the copy of the plea of the other involved party is sent to the demander of the *Hantei*, trial examination (search and verification of evidence if necessary) begins and a *Hantei* is prepared. If the need arises, submission of refutations (plea rebuttal), second pleas and responses to interrogations may be demanded. For the purpose of *Hantei* preparation, submission of electronic data such as *Hantei* demands in floppy disk or e-mail format may also be demanded. Care must be taken in filing a demand for *Hantei* since any deficiencies in form may result in rejection of the demand.

(5) Method of *Hantei* trial examination and trial examination period

A. Method of trial examination

If a demand for *Hantei* is filed, *Hantei* is to be conducted by three examiners designated by the Commissioner of the JPO (Patent Law Subsection 71(2), Patent Law Enforcement Ordinance Section 5).

No examiner having a special relationship (grounds for disqualification or evasion) to a specific *Hantei* case shall be appointed to the case for the purpose of fairness. If any impediments arise regarding an examiner after their appointment, the examiner shall be discharged and replaced by a newly appointed examiner (Patent Law Enforcement Ordinance Sections 3 and 4).

One of the appointed examiners shall assume the role of chief examiner (similar to the chief appeal examiner in appeal cases). The chief examiner shall manage all clerical affairs for the case (Patent Law Enforcement Ordinance Section 6)

In principle, *Hantei* trial examination shall be document based trial examination. However, the chief examiner may conduct oral proceedings in accordance with a demand from the involved parties or ex officio (Patent Law Enforcement Ordinance Sections 8 and 9). If specification of the item in question is deemed to require a significant amount of time then the specification procedure shall be carried out with both involved parties in attendance.

The collegial body of examiners may also examine any grounds not raised by the parties involved. In such a case, however, the chief examiner must inform the parties involved of the result of the trial examination and specify a reasonable period of time for the parties to present their opinions in this regard (Patent Law Enforcement Ordinance Section 10).

When the *Hantei* trial examination concludes, a document shall be prepared containing certain items (*Hantei* demand number, description of the case for which *Hantei* was demanded, names or corporate names and addresses or domiciles of the parties involved or their representatives, the *Hantei* result and the reason for the result and the completion date of the trial examination) and bearing examiners signatures and seals. The Commissioner of the JPO shall send a certified copy of this document to each party (Patent Law Enforcement Ordinance Section 11).

B. Period of Trial Examination

The period from demand for *Hantei* procedures to sending of the *Hantei* opinion shall be a minimum of three months (three months for cases in which both parties involved have domicile in Japan and there are no defects in formalities, etc.). The period required for *Hantei* will be prolonged to the greater part of the designated time period if either or both of the parties involved have domicile overseas. And/or if there are any defects in formalities, etc. a further extension will be necessary.

(6) Objections to *Hantei* results

No protests against *Hantei* results may be lodged by any party (according to judicial precedent).

2. Preparation of written demands for *Hantei*

(1) Written demand for *Hantei* format

A. Patents (Patent Law Subsection 71(3), Patent Law Enforcement Ordinance Section 2, Patent Law Enforcement Rule Section 39 Form 57)

Patent stamp

(non-cancelled)

40,000 yen

Demand for *Hantei*

(July 1, 2002)

Commissioner of the Japan Patent Office

1 Case for which *Hantei* has been demanded

Case Patent no. ○○○○

2 Demander

- Address: 4-5 Higashi 3-chome, Konan-ku, Yokohama, Kanagawa 233-0001
- Name: Kazuji Kagawa

3 Agent or representative

- Address: 2-3 Marunouchi 1-chome, Chiyoda-ku, Tokyo 100-0001
- Phone: ○○○○
- Facsimile: ○○○○
- Name: Patent Attorney Jiro Kono (seal)

4. Defendant

- Address: 4-5 Chiba Honcho 3-chome, Chiba-city, Chiba 280-0001
- Corporate name: Chiba and Co., Ltd.

5. Objective of the demand

To demand *aHantei* stating that the invention indicated in the drawing in question and its description does not fall under the technical scope of Patent no.○○○○.

6. Reason for demand

1. Need to demand *aHantei*
2. History of the patent
 - Date of filing of patent application May 12, 1993
 - Date of registration of patent right December 28,2001
3. Description of the patented invention
4. Description of the invention in question
5. Technical comparison of the patented invention and the invention in question
6. Explanation of why the invention in question does not fall under the technical scope of the patented invention
7. Conclusion

7. Methods of Evidence

8. List of attached documents

1. Drawing in question and its description
one original copy of each
Defendant:two copies of each
2. Copy of Patent Register
one copy
defendant:two copies
3. Copy of demand for*Hantei*
two copies
4. Power of attorney
one copy

B. Designs

Patent stamp

(non-cancelled)

40,000 yen

Demand for*Hantei*

(July 1,2002)

Commissioner of the Japan Patent Office

1. Case for which*Hantei* has been demanded

Case Design no○○○○

2. Demander

- 4-5 Higashi 3-chome, Konan-ku, Yokohama, Kanagawa 233-0001
- Corporate name:Shinsho Co., Ltd.
- Name:Kasuji Kagawa

3. Agent or representative

- Address: 2-3 Marunouchi 1-chome, Chiyoda-ku, Tokyo 100-0001
- Phone:○○○○
- Facsimile:○○○○
- Name:Patent Attorney Jiro Kono (seal)

4. Defendant

- Address:4-5 Chiba Honcho 3-chome, Chiba-city, Chiba 280-0001
- Corporate name:Chiba and Co., Ltd.

5. Objective of the demand

To request a *Hantei* stating that the design indicated in the design in question and its description falls under the scope of the registered Design no.○○○○ and designs similar thereto.

6. Reason for demand

1. Need to demand a *Hantei*
2. History of the design
3. Description of the design
4. Description of the design in question
5. Comparison of the registered design and the design in question
6. Explanation of why the design in question falls under the scope of the registered design and designs similar thereto
7. Conclusion

7. Evidence

1. Related to proof that the design in question is related to the practice of the other involved party
2. Related to prior related designs of the registered design

8 List of attached documents

1. Design in question and its description
original:one copy of each
defendant:two copies
2. Certified copy of the design register
original:one copy
defendant:two copies
3. Prior related designs
original:one copy
defendant:two copies
4. Copy of the demand for *Hantei*
two copies
5. Power of attorney
one copy

C. Trademarks

Patent stamp

(non-cancelled)

40,000 yen

Demand for *Hantei*

(July 1,2002)

Commissioner of the Japan Patent Office

1. Case for which *Hantei* has been demanded

Case registered Trademark no.○○○○

2. Demander

- Address:4-5 Higashi 3-chome, Konan-ku, Yokohama, Kanagawa 233-0001
- Name:Kazuji Kagawa

3. Agent or representative

- Address:2-3 Marunouchi 1-chome, Chiyoda-ku, Tokyo 100-0001
- Phone:○○○○
- Facsimile:○○○○
- Name:Patent attorney Jiro Kono

4. Defendant

- Address:4-5 Chiba-cho 3-chome, Chiba-city, Chiba 280-0001
- Corporate name:Chiba and Co. Ltd.

5. Objective of the demand

To request a *Hantei* stating that the mark in question used for products or services falls under the scope of registered Trademark number ○○○○.

6. Reason for demand

1. Summary of reason to demand *Hantei*
2. Need to demand *Hantei*
3. Description of the mark in question
4. Explanation that the mark in question falls/does not fall under the scope of the registered trademark
5. Conclusion

7. Evidence

Submission of the first part of the Evidence No.1 or the second part of the Evidence No.2 as proof of the advertisement (mark, product) used by the demander

1. The first part of Evidence No.1
The 10th morning edition of _____ newspaper dated December 1, 1998
2. The second part of Evidence No.1
Page 10 of the above newspaper (full page advertisement)
3. The first part of Evidence No.2
Certificate written by a reader of the above newspaper
4. The second part of Evidence No.2
Certificate of the above full page advertisement

8. List of attached documents

1. The first part of Evidence No.1
original: one copy
defendant: two copies
2. The second part of Evidence No.1
3. The first part of Evidence No.2
defendant: two copies
4. The second part of Evidence No.2
original: one copy
defendant: two copies
5. Copy of demand for *Hantei*
two copies
6. Power of attorney
one copy

(2) *Hantei* demand preparation advice

A. Form

- (a) Paper used shall be JIS (Japanese Industrial Standards) A4 size (21cm width by 29.7 cm height) and writing shall be widthwise, not lengthwise. There shall be no ink blots, stains or difficult to read (i.e. light) characters in the document.
- (b) Top, bottom, left and right margins shall not be less than 2 cm.
- (c) All characters shall be typed in black ink, clear and not easily erasable.
- (d) Writing shall be from and bound by the left-hand side.

B. Note

- (a) Demands for *Hantei* when there is a defendant should be marked in red in the top right 2 cm. Replies to demands for *Hantei* shall be marked in blue in the same location as above.
- (b) The fee for a demand for *Hantei* shall be 40,000 yen for all four industrial property laws (Patent Law Section 195, Fee Ordinance Section 1).

A non-cancelled patent stamp shall be used to pay the fee.

(c) A blank space shall be left between the patent stamp space and the title for the seal of reception. Top, bottom and right margins shall be used as spaces for seals of correction. The left margin shall be used for binding. Seals of correction may not be directly applied to the item corrected.

(d) The title shall be "demand for *Hantei*."

(e) The date of demand for *Hantei* shall be indicated. If the demand is directly submitted to the JPO, the date indicated shall be the date of submission. If the demand is mailed to the JPO, the date indicated shall be the date the demand is deposited at a Post Office.

If the due date has been designated or one wishes to in some manner profit from the period or due date, there should be proof of the date of submission, transmission or deposit at the Post Office. Especially bear in mind the fact that the date of sending of a package paid for separately (not by affixed postage stamps) cannot be proven by the date stamped on the package (the JPO may request submission of a document proving the date of sending).

Depositing a package after the final collection of that day may also complicate proof of the date of sending. The JPO considers the date stamped on the package as proof of the date of sending (Patent Law Section 19).

For any procedure to the JPO for which the due date is stipulated by Patent Law or Patent Law Ordinances, if the procedure is sent by mail the procedure shall come into effect when and if the date of procedure has been proven. (Patent Law Section 19)

(f) The demand for *Hantei* shall be addressed to the Commissioner of the Japan Patent Office. Correspondence regarding any procedure following the request shall be addressed to the Chief Examiner of the Japan Patent Office.

(g) Only the patent number or registration number shall be used to indicate the case for which *Hantei* has been demanded. No other number, such as the publication number, shall be used.

(h) The address (domicile) of the demander shall be fully and correctly indicated; no part shall be omitted. If there is no banchi (block number) in your address please indicate "no block number." If "no block number" is indicated in your address, it shall be included as part of the address.

(i) The name of the demander shall be the registered name in the toseki (domicile register) for a person and shall be the corporate name registered in the corporate register for a legal entity. If the demander is legal entity, the names of the legal entity and representative shall be indicated. Telephone and facsimile numbers of both should also be indicated. However, if the procedure is to be conducted by an agent, the representative of the legal entity's name, telephone and fax numbers are not required. If a name or corporate name is difficult to read or pronounce, phonetic superscript (furigana) should be provided.

Moreover, if the demander is a right holder the demander's information must correspond to that of the right holder in the register. If the demand does not specify a registered right holder as one of the involved parties, the demand for *Hantei* shall be rejected. If the demander is an exclusive licensee, the demand for *Hantei* shall be accepted since the demander is equivalent to a right holder in current practices.

If changes are demanded for any matters regarding the right holder in the register on the same day the demand for *Hantei* reaches the JPO, any new items in the register shall bear indication explaining the above fact. The same stipulation applies to exclusive licensees.

(j) Appointing as an agent a patent attorney who has ample technical and legal expertise, is in the business of protecting the interests of the demander and enables the JPO to operate smoothly is recommended. Lawyers may also be agents.

The agent must submit his/her power of attorney (document providing proof of authorization). If two or more agents are serving a demander, each will not be valid as an agent unless all agents are indicated and have pressed their seals on the document. Any indication such as "et al." shall have no effect.

Telephone and facsimile numbers of the agents shall also be indicated. One power of attorney may of course be submitted per case, but one may also be submitted covering multiple cases (when general power of attorney is employed). When proof of agent is submitted using general power of attorney, a column titled "general power of attorney number" must be provided in the "list of attached documents" column of documents concerning procedures and this number must be entered.

(k) Indication of the defendant is the same as the demander.

When the defendant is a right holder, the defendant's information must correspond to that which is in the register.

If a demander finds that the information of the defendant is different from the corresponding right holder in the register, if the defendant is a right holder, explanation to such effect in the reason for demand column would be beneficial from the point of view of JPO procedures.

If the demander is a legal entity the representative must be indicated (excluding procedures carried out by agents). However, if the defendant is a legal entity, it may omit indication of the representative.

(l) The "objective of the demand" shall be to request a *Hantei* regarding whether a technical idea (the drawing in question or explanation in question) falls under the technical scope of a patented invention. Please keep in mind that the demand for *Hantei* is not a demand for the JPO to decide whether or not the technical idea falls under the technical scope of a patented invention.

If the right related to the demand is a right for a method but the contents of the drawing in question and their explanation involve a product, the demand for *Hantei* shall be rejected. The demand for *Hantei* would also be withdrawn if the invention related to the demand were a product in the field of electronics but the drawing in question and its explanation contained a product in the chemical field. The same also applies to objects of demand for *Hantei* that fall under the stipulations of Section 32 of the Patent Law (violation of public order and morality).

If the demand for *Hantei* involves a design, the *Hantei* will concern whether the object of the demand falls under the scope of a registered design or similar designs.

When there are similar registered designs, the *Hantei* concerns whether the object of the demand falls under the scope of a similar registered design of a registered design and its similar designs.

Unlike utility models, patents and designs, the object of a *Hantei* for trademarks is the effect of the trademark right (Trademark Law Section 28). Since limiting the objective of the *Hantei* simply to the similarity of trademarks and goods and services would not raise the effectiveness of *Hantei* in resolving trademark right disputes, Section 28 is understood as a measure also establishing rights to use trademarks by previous use (Trademark Law Section 32) and areas outside the effect of trademark rights (Trademark Law Section 26) as objects of *Hantei*. As a result, if demanders or other involved parties claim concrete usage modes of trademarks, the *Hantei* itself will be indicated in the grounds for *Hantei*.

When a trademark right holder demands a *Hantei*, "the trademark in question used on product or service ---- by the other interested party falls under the scope of the trademark right of registered Trademark no.○○○○" is written in the objective of the demand. If a party which has received a trademark infringement warning from a trademark right holder demands a *Hantei*, "the trademark in question used on product or service ---- by the demander does not fall under the scope of the trademark right of registered trademark no.○○○○" is written in the objective of the demand.

(m) Grounds for demand (please refer to the following reference item for details)

Grounds for demand contrasts the necessity to demand a *Hantei*, the period from application filing to establishment of the right (numbers of any demands for *Hantei* and case numbers of lawsuits are included), the technical contents of the object of the *Hantei* and the technical contents of the item in question and concretely describes the reasons for filing a demand for *Hantei*.

Also, since a demand for *Hantei* can be filed at any time, when filing it is necessary to sufficiently prepare necessary evidence and describe grounds for demand to the greatest extent possible.

(n) Such items as indication of evidence, purpose of proof and explanation of evidence are included in the methods evidence column. For example, methods of evidence (witnesses, documents, etc.), convenient days to search for evidence, invocation of evidence and cases maintaining the evidence are indicated. As for indication of evidence, in regular documentary evidence the number is indicated as "evidenceKou no.○○" (evidence KenKouno.○○ for material evidence). Explanation of evidence may be added if necessary.

Expert testimony and experiment result certificates may also be submitted. Necessary evidence should be described to the greatest extent possible at the time of filing of the demand for *Hantei*.

(o) In the list of attached documents column, items actually attached, attached at the time of filing or submitted at the time of filing (including copies) should be indicated. Supplementary material shall not be indicated in this column. When citing attached documents of certificates such as power of attorney documents, "citing attachment to document no.○○submitted in Heisei YY" as well as the document name of the attachment to the invoked document and the date of citation shall be exactly written. A copy of the cited document should be attached.

Attached documents larger than A4 shall be bound with the binding (left) side and bottom flush with the tops protruding from the tops of other documents.

(p) Attached documents and materials

- Including demands for *Hantei*, in addition to originals of all documents submission of one copy for trial examination plus one copy for each of the other interested parties is necessary.

If the original is photograph or colored drawing, color copies may be submitted as copies provided they are sufficiently clear.

Also, if there are multiple items in question submission of the necessary number of copies is desirable.

- If the object of the *Hantei* is a patent right, submission of a copy of the register of the patent right is desirable.

- Examples of other attached documents and materials include the originals of the item in question, explanations of the item in question, drawings in question, VTRs on which the item in question is recorded, opinions at the time of examination of the application, warnings, patent gazettes, general power of attorney numbers and documents prepared in any prior negotiation held with the defendant.

(3) Reply contents

- Claims that there is reason for the registered right to be invalidated or cancelled are not relevant to demand for *Hantei* procedures. For such claims, if necessary a separate trial for invalidation should be demanded.

- If equivalency is claimed regarding patent rights, to indicate that the item in question is not equivalent, when claiming that the item in question is identical to well-known art at the time of filing of the application or that a person skilled in the art could have easily made the

item in question evidence to such effect (in documentary evidence the *Kou* number shall be indicated) and the grounds for the claim shall be indicated (entries shall be made and charts showing contrast attached in the same manner as grounds for invalidation and opposition).

- Even the defendant claiming that the right with which the *Hantei* is concerned bears no relation to the item in question cannot be a reason for refusal of the demand for *Hantei*. In other words, since the object of the *Hantei* is the item in question the *Hantei* will indicate whether the item falls under the scope of the right.

(4) Preparation of grounds for *Hantei* demand

1. Patent and utility model rights (please refer to written examples)

(a) Reasons why a demand for *Hantei* is necessary

- Brief explanation of why a demand for *Hantei* has been filed

The relation between the item in question and the demander (defendant), the relation between the demander and the defendant and the present status of the item in question shall be described.

(b) History such as applications for registration related to the demand for *Hantei*

- History from filing of application to registration of the right (the subject) shall be described in itemized form.

- If past or pending oppositions, appeals for invalidation, appeals for correction and infringement-related lawsuits exist they shall be described. In addition, description of categories (lawsuit, appeal), appeal categories (invalidation, correction, patent infringement, etc.), case numbers (filing number, appeal number), status and history of the right is desirable.

(c) Brief description of the subject

- The scope of the patent/ utility model claim and extracts (gazette page number included) of detailed descriptions of parts required for comparison (fields of industrial use, effects, embodiment, etc.) shall be described in an itemized fashion.

- If there are multiple claims in the specification of the patent right which is the object of the *Hantei*, clarification should be made as to which claim is the object of the *Hantei*.

- For the purpose of easy comparison to the item in question, it is effective to assign numbers (by describing piecemeal) to each constituent feature of the scope of the patent claim. This is especially necessary in claims with long sentences.

- Claims, extracts (gazette page number included) of detailed descriptions of parts necessary for comparison (embodiment), necessary drawings and citations from attached gazettes shall be framed with a red line. Items for which further emphasis is necessary shall be underlined.

- Inserting bracketed numbers next to each drawing part of a claim aids in understanding.

- If there is no number necessary for explanation of drawings, additional numbers may be added with the notice of their necessity.

- When using a gazette for explanatory purposes, the number of the gazette page, line and paragraph should be specified in the description.

- Explanation of technical language used by those skilled in the art as well as explanation of the technical standards at the time of filing of the application may be added if necessary. If interpretation is needed the method of interpretation should be described with the reason.

(d) Explanation of the item in question (this may be attached as a description of the item in question)

a. General notes

- Comparison of the description of the claim of the patented invention to the technical structure of the product of the defendant should be specified in writing to the greatest extent possible (preparation of a hypothetical claim for the item in question). Technical characteristics of the parts corresponding to the structure of the scope of the subject patent claim should be written with the same degree of thoroughness as the scope of the patent claim.

This is especially true for characteristics of product parts on which the *Hantei* is based. When describing these characteristics the parts shall be described separately and numbered in the same manner as a patent claim.

- If necessary, description shall be made using drawings, photographs or the like. It would be effective to assign a mark bearing the name of each part of the photograph, drawing, etc.

- It is desirable to describe each part by such items as composition, function, performance, effect, etc.

- Description should be made using drawings, photographs or the like. It would be effective to assign a mark bearing the name of each part of the photograph, drawing, etc.
- It is effective to specify product names, product numbers, serial numbers, etc. (Submission of real products or catalogs, etc. is advisable.)
- Photographs, drawings and the like are required for general and external views as well as specific parts related to the composition of the invention.
- Description of the item in question shall be done correctly in accordance with the actual item, if available. Description of the item in question according only to one's own interpretation may invite counterarguments from the defendant as well as delay trial. Probability that conflicts will not be resolved by the *Hantei* may therefore increase.

b. Notes by technical field

- Materials having complex structures shall be described using chemical formula.
- Pharmaceutical products shall be specified by the product name acknowledged under the Drugs, Cosmetics and Medical Instruments Act.
- In principle, DNA sequences of biotech related inventions shall be specified. Inventions related to analytical values or limited to materials or manufacturing processes shall be explained in terms of their relation to their respective base sequences.
- Components and amounts shall be clarified for inventions related to compositions of matter. Chemical compounds for which functional descriptions are given shall be compared with concrete chemical compound and function.
- Upon clarifying under what conditions inventions expressed by the parameters of high molecular compounds are measured and analyzed (measuring instruments, conditions of analysis), experiment results falling within the scope of the invention expressed by these parameters shall be indicated.

(Generally speaking, test results obtained by a public laboratory are considered to have strong evidential weight.)

- If the invention concerned involves a production method, similarity of materials and the method used to analyze similarity shall be indicated.
- If operation of equipment concerned is complicated, operational flow charts and VTRs may be attached. It is effective to describe by color the parts and elements of equipment and circuit layout plans with complicated structures. This recommendation, however, is only for general cases. It does not apply to all inventions, such as cases in which both parties have reached agreement on certain points in advance. In such cases points of agreement may not need to be specified in detail.

(e) Comparison of the subject item and the item in question

- Description shall be made by itemization to the greatest extent possible (itemization by similar points, divergent points and claimed items, sub-temization).
- Explanation using a comparison sheet of the subject item and the item in question (material, operation, function and effect for each structural element of the claim) is desirable.
- Explanation shall be made regarding which part of the invention corresponds to which part of the item in question. This shall be done referring to numbered parts of the invention and the item in question.
- Description to such effect shall be made if there is a relationship of superordinate and subordinate concepts where the compared items are the same although their expressions are different.
- Further explanation shall be added if clarification is needed for certain parts.
- Explanation of divergent points shall be in as detailed a manner as possible using evidence if necessary (for example, in the case of simple design items, explaining why such consideration is sustainable using the commonality of precedents, tasks and effects).
- Comparison of usage and effects may be important indirect facts regarding linkage of structures explained piecemeal.
- If any agreement with the other involved party is reached beforehand, description shall be made of hypothetical claims, similar points and divergent points by itemizing points of agreement and point of disagreement. Any document presented at negotiations conducted prior to the demand for *Hantei* may be attached. If the demand for *Hantei* has been presented to the other involved party and the claims of the other involved party have been sufficiently reflected in the demand for *Hantei* using a comparison chart, if agreement of the other involved party is obtained description may be made to the effect that no written reply is necessary (for the purpose of promotion of appeals).

(f) Explanation of the suspicion that the item in question falls under the technical scope of the subject item

When indication is made to the effect that the item in question is equivalent to the technical scope of the subject item, itemized, ordered indication shall be made to the effect that the requirements of the below subclauses 3(3) (i) to (v) have been met. When doing so, for the purpose of indicating that the item in question is not identical to the prior art at the time of filing of the relevant application and not easily

conceivable by any person skilled in the art, after **indicating prior art documents (documents used in the course of related trials and trial examinations are effective)** explanation shall be made to the effect that the hypothetical claim of the item in question is not similar to the prior art not easily conceivable by any person skilled in the art at the time of filing of the relevant application.

(Note) Searches are possible by the bibliography column on the front page of registration gazettes, inspection of application-related documents (or file wrappers) and PATOLIS bibliography inquiries (it may be effective to understand the history of the item concerned through inspection of filed wrappers).

(Reference)

Requirements for Determination of Equivalence (Supreme Court, Heisei 6 (1994) (O) verdict no. 1083, date of verdict: February 24, 1998)

Even if parts different from the product in question exist in the structure described in the scope of the patent claim, as products equivalent to the structure described in the scope of the patent claim it is appropriate to define the below products in question as falling under the technical scope of the patented invention:

- (1) The different part is not an essential part of the patented invention.
- (2) The product may achieve the objective of the patented invention and has identical function and effect.
- (3) A person skilled in the art may easily arrive at an idea to replace the above mentioned different part at the time of manufacturing of the product in question.
- (4) The product in question is not identical with publicly known prior art **nor is it easily conceivable by a person skilled in the art at the time of filing of the relevant application.**
- (5) There are no special circumstances for the item in question to be deliberately removed from the scope of the patent claim in application procedures of the subject patented invention.
 - Submission of copies or explanations of documents useful for carrying out *Hantei* is allowed.

(g) Conclusion

Description such as "demand of *aHantei* identical to the intention of the demand due to the fact that the item in question falls under the technical scope of _____ no. ○○○○."

2. Design registration

(a) Necessity for demanding *aHantei*

Briefly explain the necessity for demanding *aHantei*.

Describe the relationship between the design in question and the demander (defendant), between the demander and the defendant and the status of the design in question.

(b) History of procedures concerning the subject registered design

The date of filing and the application number and the date and number of registration shall be described.

(c) Description of the subject registered design

The contents of the design shall be described by attaching the application or attached drawings (or copy of design gazette) and making description to such effect.

Also, the elements and combinations of elements (shape, pattern, color) necessary to form the subject registered design shall be concretely described.

If description is carried out by assigning names to each structural component of the subject registered design, a drawing shall be attached showing corresponding parts and names and description shall be made to such effect.

(d) Explanation of the design in question

If the design in question is realized by the defendant, in accordance with the preparation guidelines for photographs substituting drawings at the time of application filing it is desirable that the content of the design be shown by attaching a photograph. If a drawing is prepared it should accurately express the realized design.

Please refer to the above (c) for further explanation.

(e) Comparison of the registered subject design and the design in question Based on the explanation of the subject registered design in the above (c) and the explanation of the design in question in the above (d) explanation shall be made of both common and divergent points of both designs.

It is possible to carry out explanation by inserting sheets comparing drawings showing the forms of each part forming the design.

(f) Explanation to the effect that the design in question falls under the scope of the subject registered design and/or similar designs

Based on explanation of the subject registered design and the design in question, the reason that the design in question falls under the scope of the subject registered design and/or similar designs should be clarified by deeper consideration regarding both common and divergent points of both designs as outlined in the above (e). Claims regarding similarity of both designs shall be described in a separate manner, as shown below.

If well-known relevant prior art exists for the purpose of providing grounds for the claim, bibliographic information (title of publication, date of publication, page number, etc.) to such extent shall be described. Although attachment for reference purposes of the original publication carrying the relevant prior art is desirable, a copy of such publication is acceptable.

If necessary, a design map may be prepared and clarification to that extent shall be made.

3. Trademark registration

The description method of the reason for demand is left to the prerogative of the demander; the demander may describe the reason for demand in a free manner. However, the contents must be clear and well-ordered.

(a) Contraction of the reason for demand for *Hantei*

In the contraction of the reason for demand for *Hantei*, evidence and reasons giving rise to the demand, the trademark which is the object of the *Hantei* (trademark in question) and the goods using that trademark and the subject trademark rights and designated goods (services) related to the demand for *Hantei* shall be arranged in order, assembled in table format and described in such a manner that the entire reason for demand may be easily grasped.

(b) Necessity of demand for *Hantei*

Explain the reason for demand for *Hantei*.

(c) Explanation of the trademark in question

Explain in detail by presenting evidence regarding the trademark in question's form, goods using that trademark, mode of use of attaching the trademark to the good or the good's wrapper, term of use, and geographic region of use.

Explanation of the usage status of the registered trademark may be necessary for the purpose of determining similarity between the registered trademark and the trademark in question.

(d) Explanation to the effect that the trademark in question (does not) fall(s) under the scope of the trademark registration

Explanation regarding similarity shall be made by elements of judgment such as exterior appearance, designation or idea by comparing the registered trademark and the trademark in question.

Explanation shall also be made regarding the similarity of the designated goods and the goods on which the trademark in question are used.

(e) Conclusion

The intention to demand a *Hantei* shall be described in the same manner as the objective of the demand.

3. Reference Materials

(1) Example of reason for demand

Example 1 (Patent:tire)

1. Necessity of demand for *Hantei*

The patent right holder (*Hantei* demander ○○○○) of the patented tire invention (evidence Kouno. 1) to which this demand for *Hantei* pertains has become aware that ----- Co., the other interested party, has been manufacturing Model 123 tires (product in question) as shown in the description in question and photograph in question.

The demander of this *Hantei* is party to the infringement litigation stated in postscript(2). For the purpose of submission of evidence to the court the demander has therefore requested a *Hantei* from a strictly neutral perspective from the Japan Patent Office, which possesses a high degree of specialized technical knowledge.

2. History of the subject patented invention

Date of filing: January 1, 1990 (patent application Heisei 2-000001)

Publication of application: July 1, 1991 (publication of patent application Heisei 3-150001)

Notice of reasons for refusal: September 1, 1991

Publication of examined application: January 1, 1992 (publication of examined application 4-000001)

Patent registration: July 1, 1992 (patent registration 1234567)

(refer to the original patent register (evidence no. 2))

Request for trial for correction: January 1, 1993 (Heisei 5 trial no. 00001) Trial decision: January 1, 1994 (correction sustained, final decision)

3. Description of the subject patented invention

Looking at the patent specification and the description of the drawing, the subject patented tire invention is described in patent claim 1 as shown below.

- (1) A tire having an exterior surface composed of AAA rubber,
- (2) on said exterior surface grooves with U-shaped cross sections crossed in acute angle with BB are formed,
- (3) for motor vehicle use.

The subject patented invention has the effect of not easily slipping on snow-covered roads.

4. Explanation of the item in question

If the item in question is described according to the subject patented invention description will be as follows.

- (a) A tire having external surface (10) composed of AAA rubber,
- (b) on said external surface (10) grooves (20) having U-shaped cross section and crossed in acute angle with BB (12) are formed,
- (c) for motor vehicle use.

"External surface" (10) shall mean ----- from the description stated in lines 4 to 6 of the 3rd page of the patent specification (patent gazette (evidence no. ○○) page 2 lines 5 to 6).

- Explanation of a
In evidence no. ○○ (pamphlet issued by the other interested party containing the item in question), "has excellent durability and does not easily slip on snow-covered roads due to use of ABC as surface rubber" is stated as a characteristic of Model 123 tires.
- Also, in evidence no. ○○ (results obtained from a compositional analysis commissioned by the demander) the composition of the surface material is ABC.
- Explanation of b
It is evident that the part marked ○ on evidence no. 1 to 5 (photographs of the tire in question taken from every angle) is a groove having a semi-circle cross section and crossed BB in an acute angle.
- Description of c
Although not the tire in question, in evidence no. ○○ (pamphlet issued by the other interested party containing the item in question) there is a picture of a motor vehicle tire with the expression "does not easily slip on snow-covered roads" concerning the item in question. The tire in question may therefore be considered to be a motor vehicle tire.

Moreover, based on socially accepted ideas it is adequate to understand that any tire having such overall shape is for a motor vehicle as shown in evidence no. ○○ (picture of the entire item in question) unless specific grounds to the contrary exist.

5. Technical comparison of the subject patented invention and the item in question

Subject patented invention Item in question Coincident

- 1) AAA rubber a. ABC rubber ○
- 2) Cross with BB (12) at b. Cross with BB (12) △
acute angle at acute angle
groove with U-shaped cross groove with semi-circle
section (20) shaped cross section (20)
- 3) tire for motor vehicle use c. tire for motor vehicle use that ◎
that does not easily slip on does not easily slip on snowy ◎
snowy roads roads

(note) Perfect matches are shown by ◎, partial matches are shown by ○,

items having been interpreted are shown by △, and divergent (equivalent) points are shown by ×.

Hantei concerning divergent and coincident points

- 1) and a
As shown in evidence no. ○○, since ABC rubber is a subordinate concept of AAA rubber, this is not a divergent point.

2) and b

Since a semi-circle is a U-shape there is no essential difference. Even though there is a difference it falls under the scope of equivalency.

3) and c

Since both are "tires for motor vehicle use" they are within the range of equivalency.

6. Explanation to the effect that the item in question falls under the technical scope of the subject patented invention

As regards 2) and b of the above(5), explain the point preliminarily argued that the grooves are identical.

- Non-essential parts

The most important part of this invention is that grooves cross at an acute angle with BB for the purpose of not easily slipping on snow-covered roads.

As described in evidence no.○○(argument submitted in the trial examination stage), "grooves cross at an acute angle with BB" contribute largely to the effect of not easily slipping.

The shape of the groove is therefore not an essential part.

- Identical objective/effect

The difference between the U-shaped groove and the semi-circle-shaped groove is only whether there is a straight line at the entrance of the groove. Moreover, the angles of the tangential lines at the entrance of the groove are always at a 90 degree angle to the surface. Accordingly there is no difference in effect caused by the difference in shapes.

Furthermore, the expression "does not easily slip on snow-covered roads" is contained in evidence no.○○(a brochure published by the defendant containing the item in question). This is the same objective and effect as the subject patented invention. Accordingly the item in question has the same objective and effect as the subject patented invention.

- Ease of substitution

Therefore, a person skilled in the art can easily substitute the non-essential parts.

- Ease of conception of the item in question

As clarified by examination, the characteristic point of this patented invention is that "grooves cross with BB at an acute angle." Moreover, before filing of the application related to the subject patented invention there were no documents describing or suggesting "semi-circle-shaped grooves crossing with BB at an acute angle."

The item in question may not therefore be easily conceived from publicly known documents, etc. (in this case, documents cited by the Examination Department are evidences no.○○)

- Consideration of history

No description excluding semi-circle-shaped grooves has been found in the course of examination of the subject patented invention.

As stated above, since the item in question is identical or at least equivalent to the structure set forth in the patent claim of the subject patented invention, the item in question falls under the technical scope of the subject patented invention.

7. Conclusion *aHantei* is demanded due to the fact that the item in question falls under the technical scope of Patent no. 1234567.

Example 2 (design)

1. The necessity to demand *aHantei*

The demander of this *Hantei* (XXXX Co., Ltd.) is the right holder of the registered design for a screwdriver (evidence no. 1, from hereon referred to as the subject registered design) related to the *Hantei* demand. The screwdriver (item in question) pertaining to the design in question (evidence no.2), presently being sold by the other interested party (YYYY Co, Ltd.) infringes the design right of the subject registered design. The demander of this *Hantei* therefore sent a warning to this effect to the other interested party (evidence no.3) on DD day MM month of YYYY year.

However, the defendant argues that "the item in question does not fall under the scope of the subject registered design and similar designs" and therefore requests *aHantei* as well.

2. History of procedures concerning this registered design

Date of filing: April 1, 1996 (Design Application Heisei 8-000001)

3. Description of the subject registered design

The product related to the subject registered design shall be a screwdriver. Its form shall be as follows (please refer to document 1)

- i) The basic structure of the whole screwdriver consists of a screw shaft (hereinafter referred to as the shaft part) and the grip part. The shaft part is slim and shaped like a long rod with its posterior end embedded and fixed in the anterior end of the grip part. The center back of the grip part shall be an elliptic frustum in which the front end is thinner, the anterior and posterior ends shall be swollen to form overall a gourd shape. Rings shall be distributed around the center part of each swollen area.
- ii) Its concrete structure is that the extreme end of the shaft is a tool for plus screws, the grip part shall be covered with insulation material in tapered tube shape at the anterior end, the posterior swollen part shall be a quasi-ball shape and the ring parts shall be fan-shaped bands attached to the diameter of each swollen part. The anterior ring part shall have a diamond knurl pattern on its surface except for certain anterior edge parts. The diameter of the posterior ring part and its width shall be the same as the radius of the posterior swollen part and shall show one small perfect circle concave part having smaller diameter than the width of each position corresponding to the posterior ring structure (hereinafter, the concave part of the dish shape) at every position opposite the posterior ring part.

4. Description of the design in question

Omitted (corresponds to the above(3))

5. Comparison of the subject registered design and the design in question

- i) Common points of both designs
 - a) The product pertaining to both designs is a screwdriver.
 - b) The basic structure of the whole screwdriver consists of a screw shaft and the grip part. The shaft part is slim and shaped like a long rod with its posterior end embedded and fixed in the anterior end of the grip part. The center back of the grip part shall be an elliptic frustum in which the anterior end is thinner, the anterior and posterior ends shall be swollen to form overall a gourd shape. Rings shall be distributed around the center part of each swollen area.
 - c) Its concrete structure is that the extreme end of the shaft is a tool for plus screws, the grip part shall be covered with insulation material in tapered tube shape at the anterior end, the posterior swollen part shall be a quasi-ball shape. The rear ring part shall be attached to the large diameter of the posterior swollen part and its width shall be the same as the radius of the posterior swollen part.
- ii) Divergent points between the designs
 - a) The ring parts are attached to the anterior and posterior swollen parts of the subject registered design, whereas only the posterior ring part exists in the design in question. Instead of the anterior ring part in the subject registered design, two thin lines are laid with a narrow distance between them in the design in question.
 - b) In the subject registered design, two concave parts of the dish shape are placed opposite one another around the posterior ring part to prevent slip. In the design in question, six thin, protruding parts running in the same direction as the shaft are placed with equal spacing between them.

6. Description of reason explaining that the design in question falls under the scope of the subject registered design and similar designs

- i) Prior designs related to the subject registered design

Publicly known document 1:

Title of publication " Monthly issue of YYYY year MM month"

Publisher "KKKK Co, Ltd.

Issued DD day MM month YYYY year

Chart --, page

Publicly known document 2 (described in the same manner as above)

Publicly known document 3 (described in the same manner as above)

- ii) Main parts of the subject registered design

Based on the above prior related designs, the main creative objective of the design of products of this subject registered design is the structure of the grip. In this subject registered design, the combination of the whole shape of the grip and the form of the rear swollen part grasped when using is the key point.

- (iii) Comparison and examination of similarity and difference between the subject registered design and the design in question

The following are the results of comparison of coincident and divergent points of the subject registered design and the design in question.

- a) The coincident points of both designs concern their basic structure, especially the gourd-shaped complete form that forms the critical part of the subject registered design. The quasi-ball shape of the posterior swollen part and the quasi-wide ring part attached around

the large diameter part of the posterior swollen part coincide with those of the design in question.
This fact should have considerable bearing of the determination of similarity or difference between the two designs.

- b) The difference between these designs cited in a) is not so distinguishable since the two thin lines with a narrow distance between them of the design in question may be recognized as one ring. This difference does not bear a great influence on the determination of similarity or difference. The divergent point cited in b) concerns an uneven surface on the relevant position to prevent slippage. However, this point is quite conventional in this type of product and is not a critical part of the subject registered design. This point is also not a significant difference and does not bear significant influence on the determination of similarity or difference.
- c) Upon examining these designs in general view based on the above recognitions and decisions, it must be concluded that the influence of the divergent points of any of these designs on the determination of similarity or difference is weak and does not surpass the value of mere common points. The total influence of these differences will not turn the determination of similarity or difference.

7. Conclusion

A *Hantei* identical to the intent of this demand is therefore requested since the design in question falls under the scope of the subject registered design and similar designs.

Example 3 (Trademark)

1. Contraction of reason to demand *Hantei*

The subject trademark Mark in question

Registered Trademark no.○○○○

Form○○○ ×××(drawing)

note:mark combining

characters and figures

Product Designated good/class

Class no.○○	Product on which mark is used
○○○,○○○,○○○	○○○
Class no.○○	
○○○,○○○,○○○	
History Date of application	Date use began
DD day MM month YY year	DD day MM month YY year
Date of registration	Currently in use
DD day MM month YY year	
Date gazette issued	
DD day MM month YY year	

Reason Since the subject trademark consists of the characters "○○○," the designation "○○○" or the idea "△△△" may come into being.

The mark in question consists of the characters "×××," and as a result may evoke the designation "○○○" or the idea "△△△."

These marks are similar in that they both evoke the designation "○○○"and the idea "△△△."

Moreover, the product (class no.○[○○○,○○○]) pertaining to the subject trademark and the product pertaining to the mark in question are similar products.

2. Necessity to Demand *aHantei*

The demander of this *Hantei* is the right holder of the subject registered trademark no.○○○○ (hereinafter the subject trademark). On DD day of MM month of YYYY year, the defendant delivered to the defendant of this *Hantei* a warning (evidence no. NN) that use of the mark "○○○" on the product "△△△"(evidence no. NN) (hereinafter the emblem in question) constitutes infringement of the trademark registration of the subject trademark.

The demander of this request and the defendant conducted negotiations and reached an agreement to request of the Japan Patent Office, possessing expertise on the scope of effect of the trademark registration of the subject trademark, *aHantei* from a strictly neutral position and to resolve the dispute based on the *Hantei*.

Accordingly, *aHantei* is demanded.

3. Description of the Mark in Question

The defendant has been manufacturing and selling the product "△△△" whose mark consists of the characters "×××" and the figure "○○○" at **** in Tokyo since DD day of MM month of YY year (evidence no.○○).

The demander began using the subject trademark for product "○○○,○○○" on DD day of MM month of YY year (evidence no.○○) and is still using it at present. Production and sales volumes, etc. are shown in evidence no.○○ to no.○○). The subject trademark was widely recognized as a mark indicating the product related to the business of the demander among users in prefectures and cities such as Tokyo, as a result of its use by the demander as late as MM month YY year, when the applicant delivered the aforementioned warning.

4. Description that the Mark in Question falls under the Scope of Effect of the Trademark Registration of the Subject Trademark

Since the subject trademark consists of the characters "○○○," the designation "○○○" or the idea "△△△" may come into being.

mark in question consists of the characters "×××," and as a

The result may evoke the designation "○○○" or the idea "△△△."

Even though the outward appearance of these marks is different, since the marks have the designation "○○○" and the idea "△△△" there exists the possibility of confusion as to the origin of the product. The products must therefore be said to be similar. Since the designated product class no.○[○○○,○○○]pertaining to the subject trademark and the product [○○○]used in relation to the mark in question are, the products are similar.

As mentioned above, since the mark in question is similar to the subject trademark and the designated products of the subject trademark are similar to those used in relation to the mark in question, the mark in question that the defendant uses for product [○○○]falls under the scope of effect of the trademark registration of the subject trademark no.○○○○.

5. Conclusion

aHantei identical to the intention of this demand is therefore demanded.

(2)Hantei official gazette

The*Hantei* results shall be published in their entirety in the Decision Gazette.

(Hantei example)

Reference material 2

schematic diagram of publicly known design 1

front view right side view A-A line cross sectional view

[Last updated 28 June 2002]

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Manual of “Hantei” (Advisory Opinion) for
Essentiality Check
(Revised Version)

March 2018

(Revised June 2019)

Trial and Appeal Department

Japan Patent Office

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provisional translation

1. Background

In recent years, the dissemination of Internet of Things (“IoT”) has led to a rapid development of so-called the “Fourth Industrial Revolution” at home and abroad where various infrastructures and devices can be connected through the Internet. The environment surrounding the patent strategies of private companies is undergoing a significant change. In particular, due to the advancement of IoT, it has become increasingly necessary for companies in diverse industries to comply with information and telecommunications standards. These changes greatly affected the environment surrounding standard-essential patents (“SEPs”).

The nature of licensing negotiations has been changing as well mainly for the following two reasons. First, while most of the licensing negotiations used to be conducted by companies in the telecommunications industry, there is an increasing need among companies in different industries, including final product manufacturers of automobiles, service providers, etc. to take part in such negotiations. Secondly, these new entries in licensing negotiations have made it difficult to solve problems by such conventional method as a cross-licensing within the same industry. Also, opinions are increasingly divided as to essentiality of patent and reasonable license fees.

A licensing negotiation between the parties concerned would be greatly influenced by a determination as to whether the patented invention subject to licensing negotiation is a SEP. If there is a dispute over the essentiality of the patented invention between the parties concerned, it would be difficult to resolve the dispute by themselves.

Therefore, if such determination is made by the Japan Patent Office (“JPO”) from a fair, neutral perspective, it would greatly contribute to facilitating the licensing negotiation and dispute resolution between the parties concerned.

In reality, the industry voiced their concerns that the parties concerned involved in a licensing negotiation sometimes start a dispute over the essentiality of a patented invention and never reach common ground. The

industry places high expectation that if the JPO conducts essentiality check based on the allegations and proofs submitted by those parties and publicizes the results of the “Hantei” (Advisory Opinion), it will facilitate the dispute resolution.

Under these circumstances, the report made by the Patent System Subcommittee of the Intellectual Property Committee under the Industrial Structure Council in FY2017 states that “if the JPO makes and publicizes a fair, neutral determination as to whether the virtual subject article, etc. specified from standard documents falls within the technical scope of a patent right based on the allegations and proofs submitted by the parties concerned disputing over the essentiality, it would increase the predictability and transparency with regard to whether the disputed patent is essential to the standard and would facilitate licensing negotiations conducted by any other parties. Thus, when filing a request for an advisory opinion of the JPO under the Patent Act Article 71, a request for an advisory opinion for an essentiality check on a patented invention should be allowed.”

In its response, JPO has clarified as to how the “Hantei” (Advisory Opinion) system shall be operated for ¹essentiality check (hereinafter referred to as the “Operation”). Thereby, the JPO prepared and decided to publicize the “Manual of ‘Hantei’ (Advisory Opinion) for an Essentiality Check” (hereinafter referred to as the “Manual”) for practitioners seeking the Operation, which commenced on April 1, 2018.

After the commencement of the Operation, the JPO received requests from users¹ that a case other than licensing negotiations be included into the subject of the Operation where there is conflict of views between the parties over the standard essentiality of the patented invention. In response to the request, the JPO reviewed and have reached the conclusion that there may be a case other than licensing negotiations where conflict of views between the parties may be solved by applying the Operation .

¹ There are requests from users that: a determination of non-essentiality of the patented invention be led by a request to the effect that a Virtual Object does not fall within the technical scope of the patented invention; buying and selling a patent right be included as a subject into the Operation.

The content of the Manual was reviewed and revised so that the Operation may be used more easily by users. The Operation based on the revised Manual shall be commenced on July 1, 2019, and the content of the Manual will continue to be reviewed as appropriate.

2. Operation of an advisory opinion system to determine standard essentiality for an essentiality check

(1) Purpose of the Operation

The purpose of the operation is, when there is conflict of views between the parties concerned about standard essentiality of the patented invention, to facilitate licensing negotiations, etc.² and quickly resolve disputes by determining the standard essentiality provided in an advisory opinion (“Hantei” system) based on the highly specialized technical knowledge of the JPO.

(2) What is an advisory opinion

The Patent Act Article 71 provides the basis for an advisory opinion. The system allows the JPO, which is involved in the establishment of patent rights, to express, upon request of any person who has an interest in a patented invention, an official opinion with regard to the technical scope of that invention from a fair, neutral perspective by using its highly specialized technical knowledge.

When a request for an advisory opinion is filed, a panel consisting of three administrative judges determines whether or not the object product (or process) “A” specified by the demandant falls within the technical scope of the patented invention (Figure 1).

All the JPO’s advisory opinions are entirely open to the public; that is, documents concerning an advisory opinion are made available for public inspection. However, either of the parties concerned has stated to the effect

² This refers to the negotiations of licensing, those of buying and selling of a patent right, those of transfer of business including a patent right, and those of establishment of mortgage for a patent right.

that the relative document includes a trade secret owned by either of the parties concerned and when the JPO Commissioner admits the secret should necessarily be held, the inspection by a third party shall be restricted.³

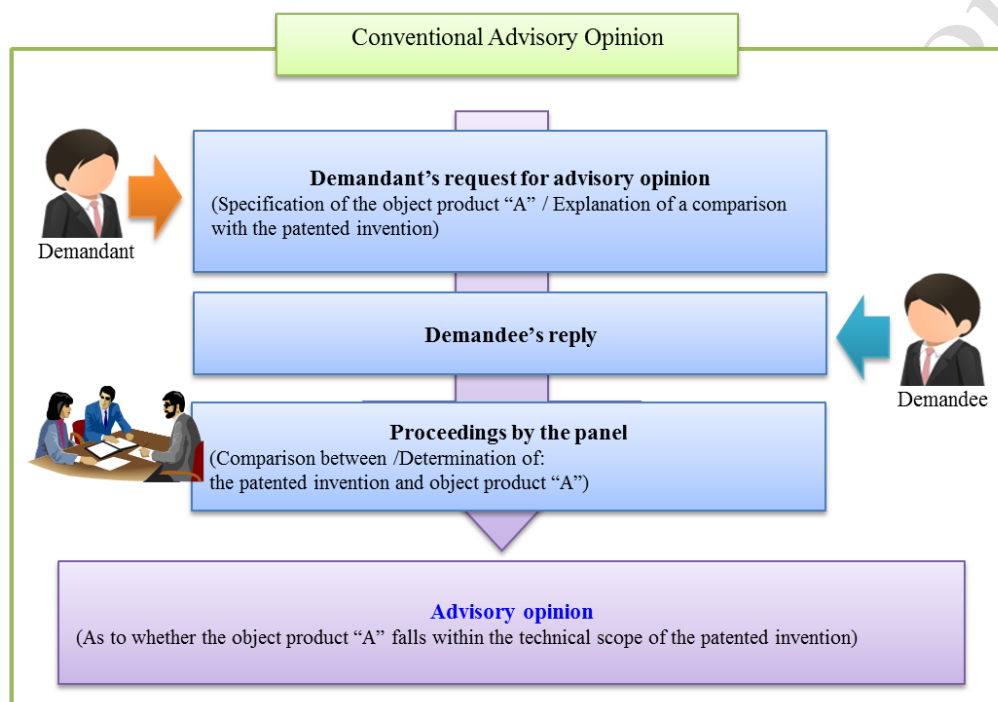


Figure 1 Conventional advisory opinion

An advisory opinion is an official opinion of the JPO (panel) on the technical scope of the patented invention. Such opinion functions merely as an expert opinion, without any legally binding force. However, because such opinion is expressed by the JPO, where highly specialized and technical administrative officers are involved, it is considered that the opinion is deemed as one of the determinations which are socially respected and authoritative. (In this manual, a “conventional advisory opinion” refers to an opinion other than an advisory opinion to check the essentiality.⁴)

³ Note that the feature of the Virtual Object, which is a premise of determination in checking shown in or below Section 2 (4) (B), is not generally regarded as inspection restrictions. A statement that the document includes the trade secret may be filed by a form “Statement of Trade Secret” in Form No, 65-8.

⁴ The Conventional Advisory Opinion is operated as per the Manual for Trial and Appeal Proceedings Chapter 58 “Hantei (Advisory Opinion on the Technical Scope of Industrial Property Rights) and the Commissioning of the Provision of an Expert Opinion by a Court” (in Japanese) and “JPO Advisory Opinion System” (in Japanese) on the JPO’s HP. While the advisory opinion system is also provided in the Utility Model Act, the Design Act, and the Trademark Act, these rights are not subject to an advisory opinion for an essentiality check according to the Operation because a dispute arising over the essentiality of any right of those Acts is unlikely.

(3) Standard essentiality of a patented invention and its operation

The standards are a set of technical specifications with which products must be complied within each technical field.

Products, etc. compliant with the standard have all indispensable configurations (technical subject matters) (hereinafter a “configuration” refers to a technical subject matter in this manual.) for the standard documents.

If such “products, etc. compliant with the standard” (i.e., the products, etc. that have all indispensable configurations for the standard documents) cannot be worked (manufactured, etc.) without using a specific patented invention; in other words, if “products, etc. compliant with the standard” fall within the technical scope of the patented invention, the patented invention is an “invention essential to the standards.” The issue of whether a patented invention is essential to the standards is called the issue of “standard essentiality of the patented invention.”⁵ A patent for an invention essential to the standards is called a “standard-essential patent (SEP)”.

In the operation, in order to determine whether a patented invention is an invention essential to the standards, instead of an object “A” used for the conventional advisory opinion, a virtual object product, etc. (Virtual Object) specified from the standard document is specified, and a request for an advisory opinion is filed for the technical scope of the patented invention. Depending on the purpose, the request can comprise the following aspects:

https://www.jpo.go.jp/e/system/trial_appeal/sinpan-binran_18.html
https://www.jpo.go.jp/e/system/trial_appeal/shubetu-hantei/index.html

⁵ The operation determines whether a Virtual Object specified from the standards document falls within the technical scope of the patented invention, but it does not determine whether a specific product adopted the standards actually complies with the standards. It is not necessarily that a Virtual Object specified by the operation equals to a specific product adopted the standards. Therefore, please be noted that even if the determination that the patented invention is essential for the standards is made, the determination that a specific product adopted the standards falls under the technical scope of the patented invention would not be made.

⁶ In the operation, the essentiality of a patented invention refers to the technical essentiality; in other words, a determination would be made as to whether the patented invention is technically unavoidable. A determination is not made with regard to commercial essentiality. In other words, in the case of a patented invention that is technically avoidable, a determination would not be made as to whether a means of avoidance is economically reasonable.

- A. On determining that the patented invention is essential to the standards, a request for an advisory opinion is filed with the purport that the Virtual Object consisting of indispensable configurations for the standard documents falls within the technical scope of the patented invention.
- B. On determining that the patented invention is not essential to the standards, a request for an advisory opinion is filed with the purport that the Virtual Object consisting of indispensable configurations for the standard documents does not fall within the technical scope of the patented invention.

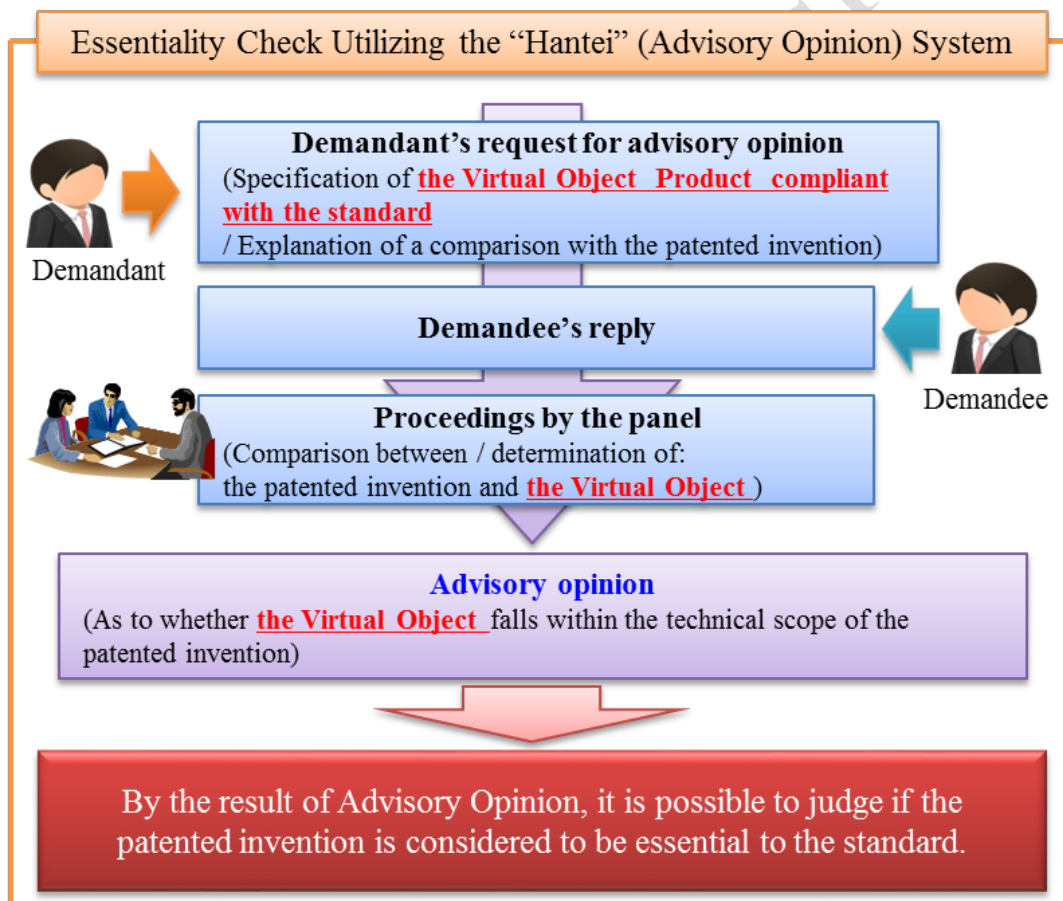


Figure 2 Essentiality check utilizing the “Hantei” (Advisory Opinion) System

(4) When a request can be filed for an advisory opinion based on the operation

A. Parties concerned who can request an advisory opinion based on the operation.

In order to file a request for an advisory opinion based on the operation, parties concerned must benefit from filing the request according to the purport of the advisory opinion system (hereinafter referred to as “benefit of request”).

An advisory opinion based on the operation can be used in the following cases: It is clear that the parties concerned who have conflict of views in the standard essentiality of the patented invention become a demandant and a demandee, in negotiations of licensing, buying and selling a patent right, a transfer of business including a patent right, and establishment of mortgaging a patent right (hereinafter referred to as “licensing negotiations, etc.”). Such parties concerned can use the advisory opinion based on the operation since they have “benefit of request.”

On the contrary, when there is no conflict of views in the standard essentiality of the patented invention in licensing negotiations, etc. (e.g., cases without an opposing party), the operation cannot be used since no benefit of request exists (in this case, the request shall be dismissed by decision because the request is non-compliant).

B. Specification of a Virtual Object

(A) When a request for an advisory opinion is filed with the purport that a Virtual Object falls within the technical scope of the patented invention

a. General remarks

An advisory opinion for an essentiality check must be directed to a virtual object product, etc. (hereinafter referred to as “Virtual Object” or “Virtual Object which is compliant with the standard”), and the configuration must be concretely specified to correspond to the constituent configurations of the

patented invention for which the request is filed, from the indispensable configurations for the standard documents (Figure 3).

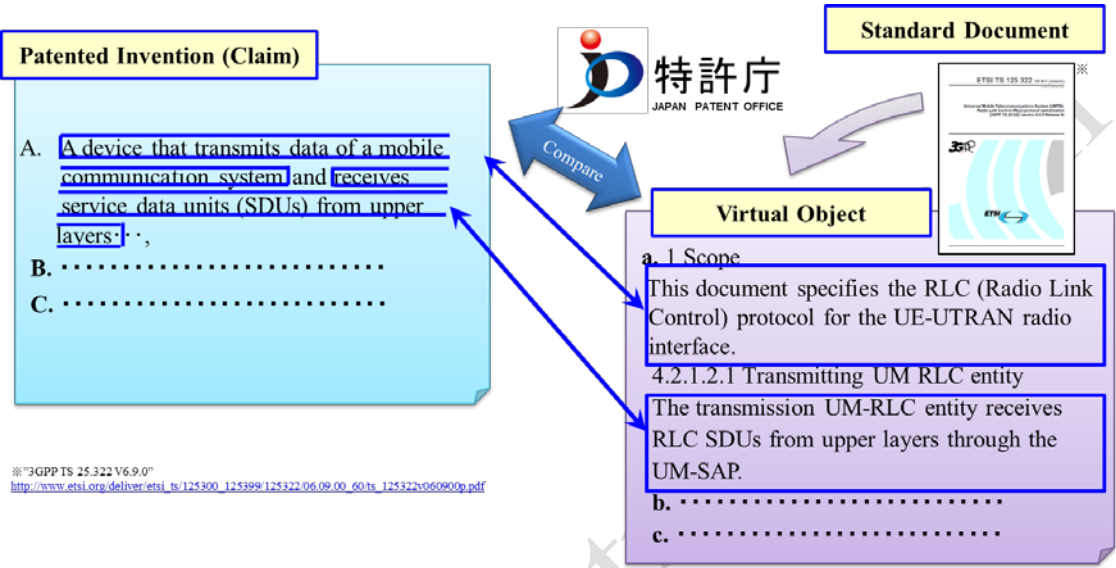


Figure 3 Virtual Object

b. Standard documents and specification of Virtual Object

In principle, the standards subject to the operation shall be limited to those standard documents that are set, as technical specifications with which the products, etc. should be complied, by a single entity, such as a standard setting organization, etc. (“SSO”) establishing the standards; and that can be submitted to the JPO as evidence (an entity establishing the standards includes a standard establishing project participated by a group of companies, but excludes de facto standards or mere product specifications established by a single company).

It is not allowed to specify a Virtual Object across multiple standard documents from multiple SSOs in principle, because it remains unclear as to which standards essentiality check must conform to. However, if a specific statement of other standard documents (including those by another SSO) is cited in the standard document subject to essentiality check and only if the

standards for the filed request for an essentiality check is clear, specifying a Virtual Object including the citation is possible.

Additionally, sometimes an SSO has not reached consensus on its standard documents' finalization, or it might be unclear to which version of the standard documents should be referred. Furthermore, parties concerned sometimes dispute over standard documents' validity. In such cases, a Virtual Object cannot be specified on the basis of the referenced standard documents. Therefore, a request cannot be filed for an advisory opinion for an essentiality check.

c. Configurations that can be used to specify a Virtual Object

Configurations indispensable for the standard documents, which can be used to specify a Virtual Object in the operation, are as follows:

- (1) A configuration (unconditionally) essential in the standard document (hereinafter referred to as "Configuration essential in the standard document")
- (2) A configuration among configurations other than (1) essential when it is necessary to select any of the multiple configurations and such selection involves a specific configuration in the standard document⁶ (hereinafter referred to as "Configuration selectively essential in the standard document")

"Configuration essential" in (1) and (2) above includes configurations that are self-evidently technically essential, although the standard document does not explicitly describe them, that can be proven to be so, or configurations that are self-evidently technically essential, although the standard document describes them but does not specify them as essential, that can be proven to be so.⁷

⁶ For example, when it is written in the standard document that (1) it is essential to select either an LED lamp or a fluorescent lamp as a warning lamp, and (2) a warning lamp comprises a DC power supply if it is an LED lamp, and a warning lamp comprises an AC power supply if it is a fluorescent lamp, if an LED lamp is selected as a warning lamp, a DC power supply is an essential feature in addition to the warning light consisting of the LED lamp.

⁷ For the operation, as described in (Note 4), if the patented invention is technically avoidable, its commercial essentiality is not determined, including whether the avoidance means is economically reasonable.

(B) When a request is for filed with the purport that the Virtual Object does not fall within the technical scope of the patented invention

Likewise, specifying the Virtual Object according to the principle shown above in (A).

Additionally, if when a request for an advisory opinion for essentiality check is filed with the purport that the Virtual Object does not fall within the technical scope of the patented invention, the Virtual Object must be specified only from the standard document's statement cited to show the correspondence with the claims of the subject patent in the claim chart⁸ sent from the opposing party (demandee) of the licensing negotiation to the demandant.

In general, even if one Virtual Object does not fall within the technical scope of the patented invention, it does not necessarily mean that "the patented invention should not be essential to the standards" because the standard documents usually contain a large amount of technical subject matters. Virtual Object could be specified in different ways depending on how the indispensable configurations for the standard documents are specified. Thus, if a demandant specifies a Virtual Object in a different way, another Virtual Object might still be found to fall within the technical scope of the patented invention, and the patented invention could be found essential to the standards (Figure 4).

⁸ This refers to the material that expresses correspondence between the claims of the subject patent and the description of the standard document.

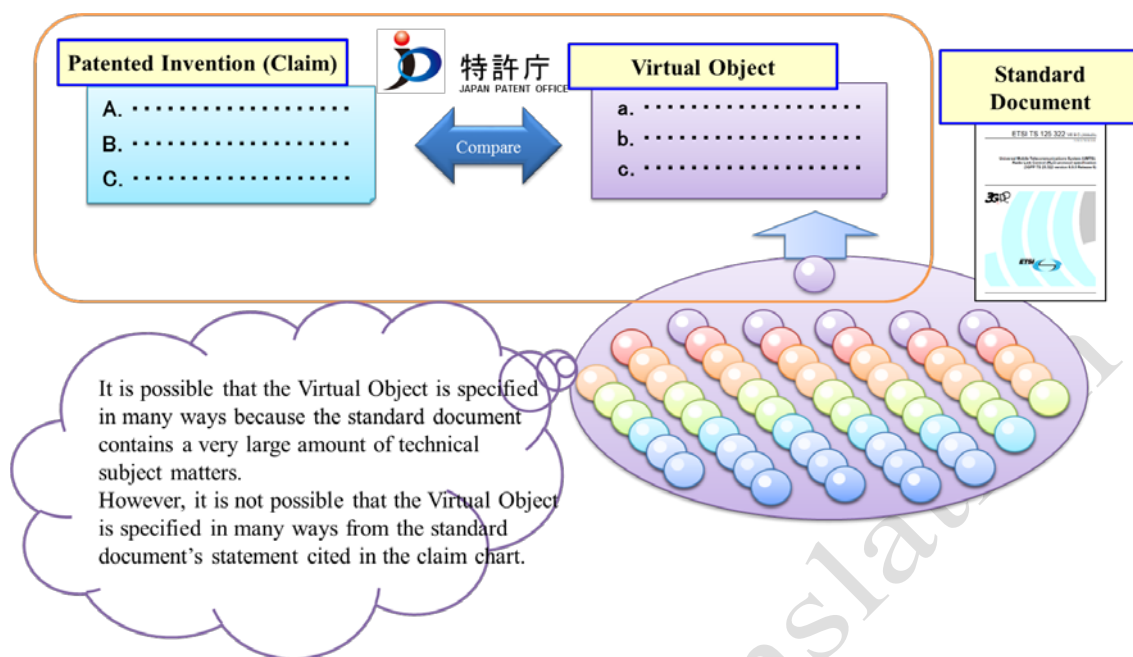


Figure 4 Relationship among a standard document, a Virtual Object and a patented invention

However, when the opposing party (demandee) sends a claim chart to the demandant as a ground for claiming that the patented invention is essential to the standards, the standard document's statement cited to indicate correspondence with the claims of the subject patent in the claim chart is considered as the standard document's most appropriate part for the opposing party (demandee) to request an essentiality check of the present patented invention. Even for the demandant, if the statement is considered as the most appropriate for the present patented invention's essentiality check, resolving conflict of views between the parties concerned over the essentiality is possible by determining that the present patent is not essential to the standard so long as it is determined that Virtual Object—as specified only from the statement—does not fall within the technical scope of the patented invention.

Therefore, when a request for an advisory opinion for an essentiality check is filed with the purport that the Virtual Object does not fall within the technical scope of the patented invention, in addition to the principle in (A) above, the claim chart sent from the opposing party (demandee) is required

to specify the Virtual Object only from the standard document's statement cited to show correspondence with the claim of the subject patent.

If the Virtual Object is not specified only from the standard document's statement cited to show the correspondence with the claim of the subject patent in the claim chart sent from the opposing party (demandee), it is only determined whether the Virtual Object falls within the technical scope of the patented invention, and the judgment on the essentiality check is not shown.

C. Summary

From the description above, the subject of the operation is summarized as follows. (For a specific flowchart, see Figure 5.)

Subject of the Operation	
(1)	In a licensing negotiation, etc., it is clear that the parties concerned (the demandant and the demandee) have conflict of views in the essentiality of the patented invention.
(2)	It is possible to specify a Virtual Object only by indispensable configurations for the standard documents set by an SSO. (Standard documents should be set by an SSO etc. and be capable of being submitted as evidence. Additionally, the "indispensable configurations" include configurations that are essential to the standard documents and those that are selectively essential to the standard documents.)
(3)–1	A request for an advisory opinion is filed with the purport that the specified Virtual Object falls within the technical scope of the patented invention.
	or
(3)–2	A request for an advisory opinion is filed with the purport that the specified Virtual Object does not fall within the technical scope of the patented invention and only from the standard document's statement cited to indicate the

correspondence with the claim of the subject patent in the claim chart sent from the opposing party (demandee) to specify Virtual Object.

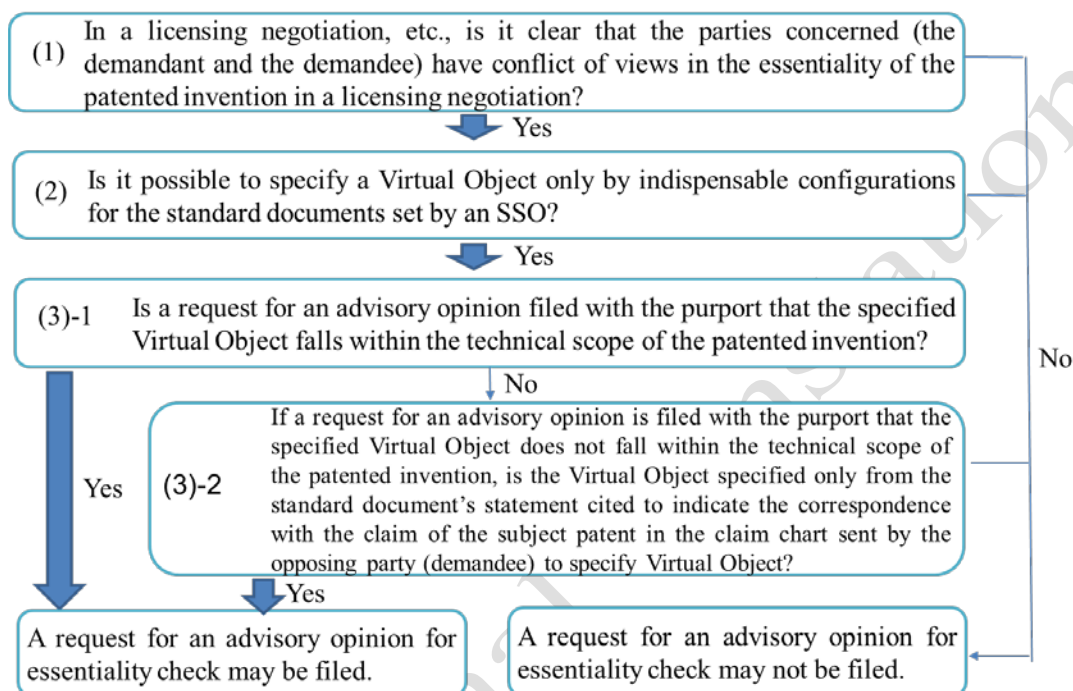


Figure 5 Subject of the Operation

When the parties concerned dispute over a specific product to be implemented, the dispute would be more beneficially resolved if a request is filed for a conventional advisory opinion concerning the specific product to be implemented. In such a case, the patentee or the person implementing the patented invention should consider filing a request for an advisory opinion determining whether the specific product to be implemented falls within the technical scope of the patented invention.⁹

3. How to write a request for an advisory opinion for an essentiality check

Based on the explanation provided above, this section explains how the demandant should write a request for an advisory opinion for an essentiality

⁹ When a request is filed for an advisory opinion to determine whether a specific product to be implemented falls within the technical scope of a patented invention, if the product complies with a standard, a part of its features could be specified from the standard documents.

check¹⁰. (Section 5 illustrates a general example, and the numerals of examples in Section 3 are shown according to those of Section 5.)

(1) Statement of “purport of the request”

A. General remarks

In filing a request for an advisory opinion for an essentiality check, first of all, it should be clarified that determination of essentiality check is requested for the advisory opinion. Thus, it is required to state “for the purpose of essentiality check” in the request form’s section titled “purport of the request”. Additionally, it should be clarified according to which standard the request is asking for; to this end, specify the standard’s name and version. Any amendment to the purport of the request would be considered as a change of the gist and would therefore be unacceptable. Hence, please state the purport of the request carefully.

B. When a request is filed with the purport that the Virtual Object falls within the technical scope of the patented invention

Following is an example of a statement of the purport of the request:

5 Purport of the request

For the purpose of essentiality check ..., we would like to request an advisory opinion that a Virtual Object product¹¹ which complies with the standards in XXX, falls within the technical scope of the patented invention for Japanese Patent No. XXX.

When an advisory opinion is issued in response to a request filed for such purport, the presented conclusion would state solely whether the Virtual

¹⁰

This section provides tips for those who file a request for an advisory opinion for an essentiality check. Regarding general matters about the form of a written request for an advisory opinion, please refer to the example of a written request for an advisory opinion in “JPO Advisory Opinion System” (in Japanese).

<https://www.jpo.go.jp/tetuzuki/sinpan/sinpan2/hantei2.htm>

¹¹ Here, Virtual Object Product is described for clarity; however, Virtual Object can also be expressed as “virtual subject article A” or “Virtual Object Process ‘A.’” The same can be said about all of the example statements below.

Object falls within the technical scope of the patented invention. If the conclusion states that the Virtual Object falls within the technical scope, the section on reasons in the advisory opinion would also refer to determination for an essentiality check of the patented invention. (See the description example in Section 6.(1).)

C. When a request is filed with the purport that the Virtual Object does not fall within the technical scope of the patented invention

Following is an example of a statement of the purport of the request:

5 Purport of the request

For the purpose of an essentiality check ..., we would like to request an advisory opinion that Virtual Object Product, which complies with the standards in XXX, does not fall within the technical scope of the patented invention for Japanese Patent No. XXX.

When an advisory opinion is issued in response to a request filed for such a purport, the presented conclusion would state solely whether the Virtual Object falls within the technical scope of the patented invention or not. If the conclusion states that the Virtual Object does not fall within the technical scope, the section on reasons in the advisory opinion would also refer to determination for an essentiality check of the patented invention. (See the description example in Section 6.(2).)

(2) Statement of the demandee

When a request for an advisory opinion for an essentiality check is filed, it should be mentioned in the request that the parties concerned have conflict of views over the standard essentiality of the patented invention as the demandee in the licensing negotiations. Thus, as shown in Section 2. (4) (A), when there is no opposing party concerned, there is no benefit of request. (In such a case, the request for an advisory opinion is dismissed by the decision due to an unlawful request for an advisory opinion.)

When the counterargument, etc. presented in a written reply reveals that

the demandant and demandee are not the parties concerned have conflict of views , the request for an advisory opinion could be dismissed by the decision that the request is unlawful.

(3) Statement of reason for the request

A. Statement of “necessity for the request for an advisory opinion”

When requesting an advisory opinion for determining an essentiality check, in the item “Necessity for the request for an advisory opinion” on the written request for an advisory opinion, the demandant clarifies that the demandant and the demandee are the parties concerned who dispute over the essentiality of the patented invention in the licensing negotiations etc..

If there is no conflict of views (e.g., cases without an opposing party) on the essentiality of the patented invention, as mentioned above in 2. (4) A., there can be no benefit of the request.

The following exemplifies the necessity for the request for an advisory opinion:

6. Reason for the request

(1) Necessity for the request for an advisory opinion

The demandant and the demandee concerning this request have discussed in the patent’s licensing negotiation on the standards in XXX whether the patented invention is essential for said standards, however, the views in the both parties still differ, and hence no agreement has been reached.

Therefore, for this essentiality check, we would like to request the JPO to provide us with an official opinion from a fair and neutral perspective that a product of the Virtual Object conforming to the standards in XXX falls within the technical scope of the present invention.

B. Statement of explanation of the Virtual Object

(A) When a request is filed with the purport that the Virtual Object falls

within the technical scope of the patented invention

In the explanation of the Virtual Object, please identify and explain one Virtual Object consisting only of the essential configuration in the standard document corresponding with the constituent configuration of the patented invention for which the advisory opinion is requested. Similar to the general advisory opinion, a drawing or a statement of Virtual Object may be attached for the explanation.

It is required to identify the Virtual Object according to the statement of the standard document. The configuration of the Virtual Object should not substantially change from the one specified in the statement of the standard document or should not identify as a generic concept or subordinate concept.

In this operation, there are two types of “essential configurations in the standard document” that can be used to identify the Virtual Object: (1) the configuration essential in the standard document and (2) the configuration selectively essential in the standard document (See 2. (4) B. (A) c.).

Additionally, the Virtual Object may be (α) specified only by an essential configuration in the standard document (i.e. a case where specified only by (1) above) or by (β) specified by containing the selectively essential configuration in the standard document (i.e. a case where specified by (1) and (2) above and/or when specified only by (2) above). Because the premise on an essentiality check shown in a written advisory opinion differs depending on whether the Virtual Object is specified according to (α) or (β), thus, the demandant should clarify whether the Virtual Object is specified either (α) or (β) by providing the information in the section “Configuration used to identify the Virtual Object” for the identification of the Virtual Object.

In (α) in the section “Configuration used to identify Virtual Object,” it should be stated that “this Virtual Object Product is identified only with the essential configuration in the standard document.”

On the contrary, in (β) in the section “Configuration used to identify Virtual Object,” it should be stated that “this Virtual Object Product is

identified by including the configuration that is selectively essential in the standard document.”

Furthermore, in (β), prior to the identification of the Virtual Object, in the item “Specification of the configuration that is selectively essential,” is provided, and specify multiple configurations where any of which should be essentiality selected and which one is actually selected.

Additionally, like an amendment that adds and specifies the configuration of the Virtual Object from a place differing from the standard document’s statement portion, shown as the reason in the request for an advisory opinion, and because the amendment to change the Virtual Object is not accepted as a change of the gist, please be careful in identifying the Virtual Object.

In the explanation of the Virtual Object, for each configuration of the identified Virtual Object, the demandant must describe the explanation where the configuration is stated and its content in the standard document and the specific reason that the configuration is essential in the standards as a basis for the request. If the standard document’s statement portion that is the basis for the request is not indicated merely regarded as the technical common sense or if a specific reason the configuration is essential in the standards is not indicated, such a configuration may not be recognized as a configuration of Virtual Object, which is the premise of the determination of falling within the technical scope of the patented invention.

Additionally, in a case where a part of the configuration for specifying the Virtual Object is an obvious configuration technically essential although not explicitly described, or is described but not specified as being essential in the standard document and is an obvious technically essential configuration, it is necessary to indicate that said configuration is essential for the standards by explaining the specific statement part and its content as well as showing the document¹² that proves the case. .

In the case of (α), for example, the section “Explanation of the Virtual Object” is described as follows.

¹² For example, recording a conference when creating the standards may be considered.

6. Reason for the request

...

(4) Explanation of the Virtual Object¹³

A. Configuration used to identify Virtual Object

This Virtual Object Product is identified only by the configuration that is essential in the standard document.

B. The Virtual Object Product is a data transmission device with the following configurations a ,

a. Using the Radio Link Control (RLC) protocol of the UE-UTRAN radio interface, the transmitting UM-RLC entity receives the RLC service data units (SDUs) from the upper layer via UM-SAP

...

C. Explanation of a.

The following is described in Exhibit No. A-x (the standard document).

“The present document specifies the Radio Link Control protocol for the UE-UTRAN radio interface.” (Page 8, “1 Scope”)
(Japanese translation: ...)

“The transmitting UM-RLC entity receives RLC SDUs from the upper layer through the UM-SAP.” (Page. 14 “4.2.1.2.1 Transmitting UM-RLC entity”)
(Japanese translation: ...)

In addition, these statements define the most basic communication protocol in the data transmission apparatus conforming to the standard. As it is also

¹³ This description example is created by the JPO based on “3GPP TS 25.322 V 6.9.0”
http://www.etsi.org/deliver/etsi_ts/125300_125399/125322/06.09.00_60/ts_125322v060900p.pdf

described as ... on page XX, lines XX of Exhibit No. A-x, it relates to the configuration that is essential in the relevant standards.

...

In the case of (β), for example, the section “Explanation of the Virtual Object” is described as follows.

6. Reason for the request

...

(4) Explanation of the Virtual Object

A. Configuration used to identify Virtual Object

The Virtual Object Product is identified by including the configuration that is selectively essential in the standard document.

B. Identification of configurations that are selectively essential

In this standard, wherein it is essential to have either an LED lamp or a fluorescent lamp as a warning light (see page XXX of Exhibit No. A-x [standard document]), in this advisory opinion request, it is premised that an LED lamp is selected as the warning light.

C. The Virtual Object Product is a ... device with the following configuration a, and

a. Equipped with a warning light consisting of LED lamps,

b. Having a DC power supply that drives the warning light,

...

D. Explanation of a.

The following items are described in Exhibit No. A-x.

“In this standard, either an LED lamp or a fluorescent lamp must be provided as the warning light.” (Page XXX)

Additionally, as described in the aforementioned “specification of the configuration that is selectively required,” assuming that the LED lamp is selected as the warning light, a warning lamp consisting of LEDs is an essential component of this standard document.

E. Explanation of b

The following items are described in Exhibit No. A-x.

“As a power supply for driving the warning light, a DC power supply should be provided if the warning light is an LED lamp, and an AC power supply should be provided if the warning light is a fluorescent light.” (Page XXX)

As described in the section “Specifically selected configuration essential,” the present request is premised on selecting the LED lamp as the warning light; therefore, the product is equipped with a DC power supply for driving the warning light.

Additionally, as described in the aforementioned “specification of the configuration that is selectively essential,” assuming that the LED lamp is selected as the warning light, a DC power supply—a power supply for driving a warning light—is an essential configuration of this standard document.

...

Moreover, when the Virtual Object includes a configuration that is selectively essential in the standard document, this fact is also referred to in determination of the essentiality check in the written advisory opinion (See the description examples of statement 6. (1) (2) (※ ※)).

(B) When a request is filed with the purport that the Virtual Object does not fall within the technical scope of the patented invention

In this case, the Virtual Object is identified in the same way as described in the previous section (A).

Additionally, to show the judgment on the essentiality check, in a claim chart sent from an opposing party (demandee) for licensing negotiations, etc., it is necessary to show that the Virtual Object is specified only from the standard document's statement portion cited to show the correspondence relationship with the subject patent claims, and to attach the claim chart to the request for an advisory opinion.

For example, when describing each configuration of the identified Virtual Object in addition to the standard document's statement portion as the basis, along with its content, identifying and describing the statement part in the claim chart sent from an opposing party (demandee) is possible.

Below, examples of statement of the explanation of the Virtual Object are shown below, including a reference example of the attached claim chart and a statement indicating that the Virtual Object is specified from the standard document's statement portion cited in the claim chart.

(Reference example of the attached claim chart)

	Present patented invention (Claim 1)	Statement in the standard document
Element A	A device for transmitting data in a mobile communication system, which receives a service data unit (SDU) from upper layers, ...	<p>"The present document specifies the Radio Link Control protocol for the UE-UTRAN radio interface." (Page8 "1 Scope")</p> <p>"The transmitting UM-RLC entity receives RLC SDUs from upper layers through the UM-SAP." (Page14 "4.2.1.2.1 UM RLC entity")</p>
Element B	b.

(Example of a statement of explanation of the Virtual Object including the statement showing that the Virtual Object is specified from the statement portion of the standard document cited in the claim chart)

6. Reason for the request

...

(4) Explanation of the Virtual Object

...

B. The Virtual Object Product is a data transmission device with the following configuration a ,

a. Using the Radio Link Control (RLC) protocol of the UE-UTRAN radio interface, the transmitting UM-RLC entity receives the RLC SDUs from the upper layer via UM-SAP,

...

C. Explanation of a

The following content is described in Exhibit No. A-x (the standard document).

“The present document specifies the Radio Link Control protocol for the UE-UTRAN radio interface.” (Page 8 “1 Scope”)

(Japanese translation: ...)

...

Then, in the “Statement of the standard document” of “Element A,” page 1 of Exhibit No. A-x (the claim chart sent from the demandee), page 8 “1 Scope” XXX is cited.

...

(C) Statement of the technical contrast between the patented invention and the Virtual Object

In the item “Technical comparison between the patented invention and the

Virtual Object,” use the comparison table and explain specifically the correspondence relationship between each constituent configuration of the patented invention and each configuration of the specified Virtual Object

In the same manner as in the general advisory opinion, indicate whether the configuration of the Virtual Object the patented invention’s constituent configurations. For example, even if it cannot be said that a configuration is formally satisfactory but it can be said that the configuration is substantially satisfied according to the interpretations, etc., describe specifically those interpretations divided by each configuration. If the interpretation of terms in the standard document becomes a problem, describe the reason that the demandant interprets that way along with the relevant grounds (e.g., evidence, etc.).

Additionally, describe as specific as possible about the issues that have been clarified in the licensing negotiations, etc. and the content that the demandee is asserting, or would assert regarding the essentiality check.

(Example of statement of a technical comparison between the patented invention and the Virtual Object)

6. Reason for the request

...

(5) Technical comparison between the patented invention and the Virtual Object Product

The correspondence relationship between the constituent configuration A, of the present patented invention and the configuration a, of the Virtual Object Product is shown in the following table.

Present patented invention	Virtual object product "A"	Fulfillment
A. A device for transmitting data in a mobile communication system, which receives a protocol data unit (PDU) from upper layers, ...	a. Using the RLC(Radio Link Control) protocol of the UE-UTRAN radio interface, the transmitting UM- RLC entity receives RLC SDUs from upper layers via UM SAP, ...	○
B. ...	b. ...	

...

(Explanation)

(i) “UE” is an acronym for “User Equipment” (Japanese translation: ...), and “UTRAN” is an acronym for “Universal Terrestrial Radio Access Network” (Japanese translation: ...). These indicate the user terminal in the mobile communication system and the network that the user terminal accesses.

“RLC (Radio Link Control)” (Japanese translation: ...) is one of the communication protocols.

“UM” is an acronym for “Unacknowledged Mode” (Japanese translation: ...) and is one of the operation modes in communication.

“SAP” is an acronym for “Service Access Point” (Japanese translation: ...) and refers to a point to receive service in network processing.

Therefore, the “data transmission device,” “upper layer,” and “service data unit (SDU)” of the patented invention correspond to “UE,” “upper layer,” and “RLC SDU” of the Virtual Object Product respectively. Thus, the configuration a of the Virtual Object Product satisfies the constituent configurations of A of the present invention.

...

(D)Statement of the explanation that the Virtual Object belongs to the technical scope of the patented invention and that the patented invention is standard and essential (or the Virtual Object does not fall within the technical scope of the patented invention, and the patented invention is not standard and essential).

Based on the technical comparison in C above, describe the explanation that the Virtual Object falls within (or does not fall within) the technical scope of the patented invention and that the patented invention is standard and essential (or not standard and essential).

(An example of a statement of the explanation that the Virtual Object falls within the technical scope of the patented invention and that the patented invention is standard and essential)

6. Reason for the request

...

(6) Explanation that the Virtual Object Product falls within the technical scope of the patented invention and that the patented invention is standard and essential

Because the configuration a, of the Virtual Object Product satisfies all the present invention's constituent configurations A, respectively, the Virtual Object Product having the configuration a, falls within the technical scope of the present patented invention.

Additionally, because the Virtual Object Product falls within the technical scope of the patented invention, the patented invention is essential to standards of XXX.

(An example of a statement of the explanation that the Virtual Object does not fall within the technical scope of the patented invention and that the patented invention is not standard and essential)

6. Reason for the request

...

(6) Explanation that the Virtual Object Product does not falls within the technical scope of the patented invention and that the patented invention is not standard and essential.

Because the configuration a, of the Virtual Object Product does not satisfy the present invention's constituent configurations A, respectively, the

Virtual Object Product having the configuration a does not fall within the technical scope of the present invention.

...

Additionally, because the Virtual Object Product does not fall within the technical scope of the patented invention, the patented invention is not essential to the standards in XXX.

(4) Statement of “means of evidence”

The statement of means of evidence is the same as in the case of general judgment, but if the standard document to be submitted as evidence is written in a foreign language, it is required to attach a translation of the relevant part (Article 61 is applied mutatis mutandis pursuant to the Regulations under the Patent Act Article 40).

4. Written reply submitted by the demandee

- (1) A written reply to a request for an advisory opinion on determining that the Virtual Object Product falls within the technical scope of the patented invention

In the section “Purport of the reply,” it is required to state that the demandee seeks an advisory opinion that Virtual Object Product¹⁴ does not fall within the technical scope of the patented invention.” In the section “Reason for the reply,” it is mandatory to state, among other things, the reasons and grounds for the demandee’s allegation that the said product does not fall within the technical scope and the counterargument against the demandant’s allegation for each configuration decomposed by the demandant. The demandee may also submit an evidence as Exhibit No. B-x, if necessary.

For example, the content of the counterargument includes the following. (a) Part of the configuration of the Virtual Object Product does not fulfill the

¹⁴ While Virtual Object Product is used here for the sake of clarity, as described in (Note 10), Virtual Object can be expressed as “Virtual Object Product” or “Virtual Object Process”. Please describe according to the statement of the written request for an advisory opinion.

corresponding patented invention's constituent configurations because of misinterpreting the standard document's statement specified the Virtual Object Product. (b) In the configuration corresponding to the patented invention's constituent configurations, the configuration that the demandant alleges as indispensable to the standards is not actually indispensable. Concerning issues about which the demandee has submitted no counterargument, the JPO makes a determination as per the demandant's allegations and proof. Thus, in such a case, please note that the JPO's determination could be disadvantageous to the demandee.

When the demandee believes that the demandee should not be considered as having a different opinion on essentiality, the demandee may give specific reasons for such a belief. For instance, the demandee could explain that while the demandee received a request from the demandant for a licensing negotiation on the patent for which an advisory opinion is sought, the demandee has no conflict of views with the demandant over the essentiality of the patented invention.

Under this advisory opinion system, the demandee can allege about the technical scope of the patented invention but cannot do so about the validity of the patent right. It would be meaningless to state reasons for invalidation as a patent invalidity defense. Hence, the demandee can file a separate request for a trial for invalidation, etc. if necessary.

(Example of a statement of the purport of the reply)

We would like to request an advisory opinion to the effect that a Virtual Object Product does not fall within the technical scope of the patented invention of Japanese Patent No. XXX.

(Example of a statement of reason for the reply)

Concerning a configuration ... of the Virtual Object Product, while the demandant interprets the statement ... contained in the standard document as ..., the statement concerning the said configuration should be interpreted as ..., based on the statement presented in lines XX–XX on page XX of Exhibit No. A-x and in the statement presented in lines XX–XX on page XX of Exhibit No. B-x.

When statements contained in the standard document are thus interpreted, the configuration ... of the Virtual Object Product does not fulfill the constituent configuration ... of the patented invention.

Furthermore,

On grounds set forth above, the Virtual Object Product does not fall within the technical scope of the patented invention of Japanese Patent No. XXX.

- (2) A written reply to a request for an advisory opinion determining that the Virtual Object Product does not fall within the technical scope of the patented invention

In the section “Purport of the reply,” it is mandatory to state that the demandee seeks an advisory opinion that Virtual Object Product falls within the technical scope of the patented invention.” In the section “Reason for the reply,” it is required to state, among other things, the reasons and grounds for the demandee’s allegation that Virtual Object Product falls within the technical scope and the counterargument against the demandant’s allegation. The demandee may also submit an evidence as Exhibit No. B-x, if necessary.

When the demandee makes a counterargument, showing that the configuration of the Virtual Object Product fulfills all the corresponding constituent configurations of the patented invention is necessary by specifically explaining the relationships between each constituent configuration of the patented invention and each configuration of the specified Virtual Object. Consider using a comparative table, if necessary.

For instance, the demandee can possibly present another such counterargument that the configuration that the demandant does not allege as indispensable is, in fact, indispensable.

(Example of a statement of the purport of the reply)

We would like to request an advisory opinion to the effect that the Virtual Object Product falls within the technical scope of the patented invention of Japanese Patent No. XXX.

(Example of a statement of the reason for the reply)

Concerning configuration ... of the Virtual Object Product, while the demandant interprets the statement ... contained in the standard document as ..., the statement concerning the said configuration should be interpreted as ..., based on the statement presented in lines XX–XX on page XX of Exhibit No. A-x and the statement presented in lines XX–XX on page XX of E No. B-x.

When statements contained in the standard document are thus interpreted, the configuration ... of the Virtual Object Product fulfills the constituent configuration ... of the patented invention.

Furthermore,

Therefore, because the Virtual Object Product fulfills all the constituent configurations of the patented invention, it falls within the technical scope of the patented invention of Japanese Patent No. XXX.

In a case where it is considered that the Virtual Object Product is not specified only from the standard document's explanation cited to show the relationship with the patent claim in the claim chart sent by the demandee to the demandant, stating in the written reply the specific reason to have thought so is required.

As a result, when it is recognized that the Virtual Object is not specified only from the standard document's explanation cited in the claim chart sent by the demandee to the demandant, the JPO only determines whether the Virtual Object falls within the technical scope of the patented invention. Then, the JPO does not make a determination for an advisory opinion for an essentiality check.

(Example of a statement of reason for the reply)

The Virtual Object that the demandant specifies is not specified only from the standard document's explanation cited to show the relationship with the patent claim in the claim chart sent by the demandee.

The claim chart sent by the demandee to the demandant does not state the configuration “...” in the Virtual Object Product identified by the demandant.

Furthermore,

5. Example of a statement of a written request for an advisory opinion for an essentiality check

An example of a statement of a written request for an advisory opinion for an essentiality check is presented below.

(1) An example of a statement of a written request for an advisory opinion on determining that the Virtual Object falls within the technical scope of the patented invention

<p>1. Indication of the case of an advisory opinion request Case of an advisory opinion request concerning Japanese Patent No. XXX</p> <p>2. Demandant ...</p> <p>3. Attorney of the demandant ...</p> <p>4. Demandee ...</p> <p>5. Purport of the request For the purpose of an essentiality check ..., we would like to request an advisory opinion determining that a Virtual Object Product, which is complied with the standards in XXX, does not fall within the technical scope of the patented invention for Japanese Patent No. XXX.</p> <p>6. Reason for the request (1) Necessity for the request for an advisory opinion The demandant and the demandee concerning this request have discussed in the patent's licensing negotiation on the standards in XXX whether the patented invention is essential for said standards, however, the views in the both parties still differ, and hence no agreement has been reached. Therefore, for this essentiality check, we would like to request the JPO to provide us with an official opinion from a fair and neutral perspective that a</p>

product of the Virtual Object conforming to the standards in XXX falls within the technical scope of the present invention.

(2) Procedures before the JPO related to the patented invention

...

(3) Explanation of the patented invention

Based on the description and drawings, the patented invention ... is as described in Claim 1 as follows. The configuration is decomposed into each constituent configuration and called A,

“A. A device that transmits data of a mobile communication system and receives service data units (SDUs) from the upper layer, ...

(4) Explanation of the Virtual Object

A. Configuration used to identify the Virtual Object (*)

(B. Identifying configurations that are selectively essential (**))

...

B. Virtual Object Product is a data transmission device with the configuration a, ... as follows.

a. By using the RLC (Radio Link Control) protocol for the UE-UTRAN radio interface, the transmitting UM-RLC entity receives RLC SDUs from the upper layer through UM-SAP, ...

C. Explanation of a.

The following is described in Exhibit No. A-x (the standard document).

“The present document specifies the Radio Link Control protocol for the UE-UTRAN radio interface.” (Page 8, “1 Scope”)
(Japanese translation: ...)

“The transmitting UM-RLC entity receives RLC SDUs from the upper layer

through the UM-SAP.” (Page 14, “4.2.1.2.1 Transmitting UM-RLC entity”) (Japanese translation: ...)

These statements specify the most basic communication protocol for data transmission devices that comply with the standards, and because it is stated in page XX, lines XX to XX of Exhibit No. A-x that ..., the configurations are indispensable for the standards.

...

(5) Technical comparison between the patented invention and Virtual Object Product

The correspondence relationship between the constituent configuration A, of the present patented invention and the configuration a, of the Virtual Object Product is shown in the following table.

Patented invention	Virtual Object Product “A”	Fulfillment
A. A device that transmits data of a mobile communication system and receives the service data unit (SDU) from upper layers, ...	a. By using the RLC (Radio Link Control) protocol for the UE UTRAN radio interface, the transmitting UM -RLC entity receives RLC SDUs from upper layers through the UM-SAP, ...	○
B. ...	b. ...	

...

(Explanation)

(i) “UE” is the acronym of “User Equipment” (Japanese translation: ...). “UTRAN” is the acronym of “Universal Terrestrial Radio Network” (Japanese translation: ...). They refer to a user’s terminal of a mobile communication system and the network to which the user’s terminal accesses.

“RLC (Radio Link Control)” (Japanese translation: ...) is one of the communications protocols.

“UM” is the acronym of “Unacknowledged Mode” (Japanese translation: ...),

which is one of the operating modes in communication.

“SAP” is the acronym of “Service Access Point” (Japanese translation: ...), which means the point at which network processing services are provided.

Therefore, the “data transmitting device,” “upper layer,” and “Service Data Unit (SDU)” of the patented invention correspond to the “UE,” “upper layers,” and “RLC SDU” of Virtual Object Product, respectively. The configuration a of the Virtual Object Product fulfills the constituent configuration of A of the patented invention.

...

(6) Explanation that the Virtual Object Product falls within the technical scope of the patented invention and that the patented invention is essential to the standard

Because the configuration a, of the Virtual Object Product does not satisfy the present invention’s constituent configurations A, respectively, the Virtual Object Product having the configuration a does not fall within the technical scope of the present invention.

...

Additionally, because the Virtual Object Product does not fall within the technical scope of the patented invention, the patented invention is not essential to the standards in XXX.

(7) Conclusion

Because the Virtual Object Product, which complies with the standards in XXX, fulfills all of the patented invention’s constituent configurations, the Virtual Object Product falls within the technical scope of the patented invention.

7. Means of evidence

(1) Exhibit No. A-1: Patent Gazette No. XXX

(2) Exhibit No. A-2: Standard document XXX

8. List of attached documents and items

(1) Request for an advisory opinion 2 (duplicates)

(2) Explanation of object A 1 (original)

2 (duplicates)

(3) Certified copy of the patent register	1 (original) 1 (duplicate)
(4) Power of attorney	1

(*) When the Virtual Object Product is specified only by essential configurations in the standard document, it is required to state, “The Virtual Object Product is specified only by the configurations essential in the standard document.” If the Virtual Object Product is specified as containing configurations that are selectively essential in the standard document, it is required to state, “The Virtual Object Product is specified containing the configurations that are selectively essential in the standard document.”

(**) When the Virtual Object is specified using configurations that are selectively essential, it is necessary to state and explain the configurations, adding an item of “Selectively essential configurations” in the “Explanation of the Virtual Object.”

(2) An example of a statement of a written request for an advisory opinion determining that the Virtual Object does not fall within the technical scope of the patented invention

1. Indication of the case of advisory opinion request
Case of an advisory opinion request concerning Japanese Patent No. XXX
2. Demandant
...
3. Attorney of the demandant
...
4. Demandee
...
5. Purport of the request
For the purpose of essentiality check, we would like to request an advisory opinion determining that the Virtual Object Product, which complies with the

standards in XXX, does not fall within the technical scope of the patented invention of Japanese Patent No. XXX.

6. Reason for the request

(1) Necessity for the request for an advisory opinion

The demandant and the demandee concerning this request have discussed in the patent's licensing negotiation on the standards in XXX whether the patented invention is essential for said standards, however, the views in the both parties still differ, and hence no agreement has been reached.

Therefore, for this essentiality check, we would like to request the JPO to provide us with an official opinion from a fair and neutral perspective that a product of the Virtual Object conforming to the standards in XXX falls within the technical scope of the present invention.

(2) Procedures before the JPO related to the patented invention

...

(3) Explanation of the patented invention

Based on the description and drawings, in the patented invention is described as in Claim 1 as follows. The configuration is decomposed into each constituent configuration and called A,

"A. A device that transmits data of a mobile communication system and receives the SDUs from the upper layer, ..."

(4) Explanation of the Virtual Object

A. Configuration used to identify the Virtual Object (*)

(B. Identifying configurations that are selectively essential (**))

...

B. Virtual Object Product is a data transmission device with the configuration a, ... as follows.

a. By using the RLC (Radio Link Control) protocol for the UE-UTRAN radio interface, the transmitting UM-RLC entity receives RLC SDUs from the upper layer through UM-SAP, ...

C. Explanation of a.

Exhibit No. A-x (standard document) states as follows.

“The present document specifies the Radio Link Control protocol for the UE-UTRAN radio interface.” (Page 8, “1 Scope”)

(Japanese translation: ...)

“The transmitting UM-RLC entity receives RLC SDUs from the upper layer through UM-SAP.” (Page 14, “4.2.1.2.1 Transmitting UM-RLC entity”)

(Japanese translation: ...)

These statements specify the most basic communication protocol for data transmission devices that comply with the standard, and because it is stated in page XX, lines XX–XX of Exhibit No. A-x that ..., the configurations are indispensable for the standard.

In the explanation of “Element A” on page 1 of Exhibit No. A-y (claim chart sent by the demandee), “1 Scope” on page 8 and “4.2.1.2.1 Transmitting UM RLC entity” on page 14 are cited.

...

(5) Technical comparison between the patented invention and the Virtual Object Product

The following table shows the relationships between the constituent configuration A, ... of the patented invention and the configuration a, ... of the Virtual Object Product.

Patented invention	Virtual Object Product “A”	Fulfillment
A. A device that transmits data of a mobile communication system and receives the service data unit (SDU) from upper layers, ...	a. By using the RLC (Radio Link Control) protocol for the UE UTRAN radio interface, the transmitting UM -RLC entity receives RLC SDUs from upper layers through the UM-SAP, ...	×
B. ...	b. ...	

(Explanation)

(i) “UE” is the acronym of “User Equipment”. “UTRAN” is the acronym of “Universal Terrestrial Radio Access Network” (Japanese translation: ...). They refer to a user terminal of a mobile communication system and the network to which the user terminal accesses.

“RLC (Radio Link Control)” (Japanese translation: ...) is one of the communications protocols.

“UM” is the acronym of “Unacknowledged Mode” (Japanese translation: ...), which is one of the operating modes.

“SAP” is the acronym of “Service Access Point” (Japanese translation: ...), which means the point at which network processing services are provided.

“SDU” (Japanese translation: ...) is the acronym of “Service Data Unit”.

Therefore, the “data transmitting device” and “upper layer” of the patented invention correspond to the “UE” and “upper layer” of the Virtual Object Product respectively. On the contrary, it is clear that the SDU is technically different from the protocol data unit (PDU). Therefore, the “PDU” of the patented invention does not correspond to the “RLC SDU” of the Virtual Object Product.

Thus, the configuration a of the Virtual Object Product does not fulfill the constituent configuration A of the patented invention.

...

(6) Explanation that the Virtual Object Product does not fall within the technical scope of the patented invention and that the patented invention is not essential to the standards

Because the configuration a, of the Virtual Object Product does not satisfy the present invention's constituent configurations A, respectively, the Virtual Object Product having the configuration a does not fall within the technical scope of the present invention.

...

Additionally, because the Virtual Object Product does not fall within the technical scope of the patented invention, the patented invention is not essential to the standards in XXX.

(7) Conclusion

Because the Virtual Object Product, which complies with the standards in XXX, does not fulfill the constituent configuration A, ... of the patented invention, the Virtual Object Product does not fall within the technical scope of the patented invention.

7. Means of evidence

- (1) Exhibit No. A-1: Patent Gazette No. XXX
- (2) Exhibit No. A-2: Standard document XXX
- (3) Exhibit No. A-3: Claim chart sent by Demandee to Demandant

8. List of attached documents and items

- | | |
|---|----------------|
| (1) Request for an advisory opinion | 2 (duplicates) |
| (2) Explanation of the article A | 1 (original) |
| | 2 (duplicates) |
| (3) Certified copy of the patent register | 1 (original) |
| | 1 (duplicate) |
| (4) Power of attorney | 1 |

(*) When the Virtual Object Product is specified only by configurations that are essential in the standard document, it is required to state, "The Virtual Object Product is specified only by the configurations that are essential in the standard document." If the Virtual Object Product is specified as containing the configurations that are selectively essential in the standard document, it is required to state, "The Virtual Object Product is specified containing the configurations that are selectively essential in the standard document."

(**) When the selectively essential configurations are specified, it is necessary to explain the configurations, adding an item of “Selectively essential configurations” in the “Explanation of the Virtual Object”.

provisional translation

6. Example of a statement of a written advisory opinion for an essentiality check

The JPO's advisory opinion is made available to the public. The following example of a statement shows a written advisory opinion in cases of containing and not containing determination of essentiality check.

(1) An example of a statement of a written request for an advisory opinion determining that the Virtual Object falls within the technical scope of the patented invention

(Example of a statement of a written advisory opinion containing comment on essentiality)

[Indication of the case]

The following advisory opinion on the technical scope of a patented invention for Japanese Patent No. XXX between the parties above is stated and concluded as follows.

[Conclusion]

The Virtual Object Product, which complies with the standards in XXX, falls within the technical scope of the patented invention of Japanese Patent No. XXX.

[Reason]

1. Purport of the request

The stated purport of the request for an advisory opinion is that the demandant seeks an advisory opinion for an essentiality check determining that Virtual Object Product, which complies with standard XXX, falls within the technical scope of the patented invention of Japanese Patent No. XXX.

2. History of the procedures of the patent...

3. Patented invention

...

4. Virtual Object Product

(1) Identification of the configurations that are selectively essential (*)

(2) ...

5. Comparison and determination

...

On the grounds set forth above, the Virtual Object Product fulfills all constituent configurations of the patented invention.

6. Conclusion

As described above, the Virtual Object Product, which complies with the standards in XXX, falls within the technical scope of the patented invention.

Therefore, the advisory opinion shall be made as stated in the conclusion.

The following comment (**) is added with regard to the patented invention.

Based on the allegations made and evidence submitted by the parties concerned, the Virtual Object Product, which complies with the standards in XXX, falls within the technical scope of the patented invention. Therefore, the patented invention shall be considered as essential to the standards in XXX (when adopting the configuration stated in “Identification of the configurations that are selectively essential” above).

(*) “(1) Identification of the configurations that are selectively essential” will be stated on the assumption of the content only when “identifying configurations that are selectively essential” is stated in the written request for an advisory opinion.

(**) When the Virtual Object Product is specified only by the configurations that are essential in the standard document, the content shown in parentheses in the comment above will not be stated. On the contrary, when the Virtual Object Product is specified as containing the configurations that are selectively essential in the standard document, it is required to state the content shown in parentheses in the comment above.

(Example of a statement of an advisory opinion that does not contain any

comment to essentiality)

...

[Conclusion]

The Virtual Object Product, which complies with standard XXX, does not fall within the technical scope of the patented invention of Japanese Patent No. XXX.

[Reason]

...

5. Comparison and determination

...

Thus, the Virtual Object Product does not fulfill the patented invention's constituent configurations.

6. Conclusion

As described above, the Virtual Object Product, which complies with the standards in XXX, does not fall within the technical scope of the patented invention.

Therefore, the advisory opinion shall be made as stated in the conclusion.

(2) An example of a statement of a written request for an advisory opinion determining that the Virtual Object does not fall within the technical scope of the patented invention

(Example of a statement of a written advisory opinion containing determination on essentiality)

[Indication of the case]

The following advisory opinion on the technical scope of a patented invention for Japanese Patent No. XXX between the parties above is stated and concluded as follows.

[Conclusion]

The Virtual Object Product, which complies with the standards in XXX, does not fall within the technical scope of the patented invention of Japanese

Patent No. XXX.

[Reason]

1. Purport of the request

For an essentiality check, the stated purport of the request for an advisory opinion is that the demandant seeks the advisory opinion determining that the Virtual Object Product, which complies with the standards in XXX, does not fall within the technical scope of the patented invention of Japanese Patent No. XXX.

2. History of the procedures

...

3. Patented invention

...

4. Virtual Object Product

((1) Identification of the configurations that are selectively essential (*))

(2) ...

...

Each of the aforementioned standard document's statements is included in the content in the standard document's explanation cited to show the relationship with the claim of the patented invention in the claim chart sent by the demandee to the demandant.

5. Comparison and determination

...

On these grounds, the Virtual Object Product does not fulfill the constituent configurations A, ... of the patented invention.

6. Determination

As described above, the Virtual Object Product, which complies with the standards in XXX, does not fall within the technical scope of the patented invention.

Therefore, the advisory opinion shall be made as stated in the “Conclusion” section above.

The following comment (**) is added about the patented invention.

Based on the allegations and evidence submitted by the parties concerned, the Virtual Object Product, which complies with standard XXX, does not fall within the technical scope of the patented invention. Therefore, as long as it is determined from the standard document’s explanation cited to show the relationship with the claim of the patented invention in the aforementioned claim chart, the patented invention (when adopting the configuration stated in “Identifying configurations that are selectively essential” above) cannot be considered as essential to the standards in XXX.

(*) “(1) Identifying configurations that are selectively essential” will be stated on the assumption based on the content when “identifying configurations that are selectively essential” is stated in the written request for an advisory opinion.

(**) When the Virtual Object Product is specified only by those configurations that are essential in the standard document, the content shown in parentheses in the comment above will not be stated. On the contrary, when the Virtual Object Product is specified as containing the configurations that are selectively essential in the standard document, it is necessary to state the content shown in parentheses in the comment above.

(Example of a statement of a written advisory opinion not containing determination on essentiality)

...

[Conclusion]

The Virtual Object Product, which complies with the standards in XXX, falls within the technical scope of the patented invention.

[Reason]

...

5. Comparison and determination

...

Thus, the Virtual Object Product does not fulfill the constituent configurations of the patented invention.

6. Determination

As described above, the Virtual Object Product, which complies with the standards in XXX, falls within the technical scope of the patented invention.

Therefore, the advisory opinion shall be made, as stated in the "Conclusion".

GUIDE TO LICENSING NEGOTIATIONS INVOLVING STANDARD ESSENTIAL PATENTS

June 5, 2018

Japan Patent Office

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I. Purpose of the Guide

A. SEP Issues and Background

(Changes in Relation to Standards and Patents)

The Guide to Licensing Negotiations involving Standard Essential Patents (“this Guide”) aims to enhance transparency and predictability, facilitate negotiations between rights holders and implementers, and help prevent or quickly resolve disputes concerning the licensing of standard essential patents (“SEPs”), which are the patents essential in implementing standards in the field of wireless communications and the like.

While a patent granting exclusive rights to a technology as compensation for disclosing an invention and a standard designed to spread a technology as widely as possible both help to promote innovation, the seeming contradiction between them also often gives rise to tension. That tension first became evident in the 1990s when telecommunications technologies started shifting to digital formats, accompanied by a trend toward standardizing the latest technologies even while protecting them with patents, resulting in SEP disputes.

With respect to SEP disputes, two issues which many are concerned about are “hold-up” and “hold-out,” and there is controversy between rights holders and implementers over which of the two is more serious.

“Hold-up” is a situation whereby businesses providing key social infrastructure or services using SEPs that are essential to the operation of those businesses are faced with the threat of injunction. Legal precedents across the world seem to be converging toward permitting injunctions concerning FRAND-encumbered SEPs (i.e., SEPs for which a FRAND declaration has been made) only in limited situations. Nevertheless, with courts continuing to grant injunctions, hold-up remains an issue for implementers.

On the other hand, rights holders point to the issue of “hold-out,” whereby the implementer receives an offer for licensing negotiations from the rights holder, but fails to engage in negotiations in good faith in anticipation that an injunction will be denied on SEPs.

Standards setting organizations (“SSOs”) have formulated policies concerning SEPs (“IPR policy”) designed to prevent disputes and promote the

widespread use of the SEPs necessary for implementing technical standards. Part of this endeavor has included developing policies to ensure that SEP licenses are “fair, reasonable and non-discriminatory” (“FRAND”). This has encouraged companies and other parties participating in standardization to propose high-quality technologies to SSOs and has made a substantial contribution to the widespread adoption of standard technologies.

At the same time, there is a strong call for enhancing transparency in relation to the essentiality and validity of SEPs. Some rights holders might deliberately overdeclare their patents as SEPs to SSOs when they are not actually essential, and in any event, it is normal to declare patents as essential when they are still in the application phase and when the standard is not itself settled. A certain amount of overdeclaration is therefore inevitable, and much better than underdeclaration. Some point out that such overdeclaration has been encouraged by the industry practice of determining royalties at least partly in proportion to the number of SEPs held in relation to a certain standard.

SSOs typically do not check whether the patents declared by the rights holder as essential are in fact essential, or whether changes made to technical specifications during the standard creation process have made a patent inessential. In addition, there is no routine third-party review process at the SEP listing stage.

(Paradigm Shift in Licensing Negotiations)

The spread of the Internet of Things (“IoT”) in recent years has spurred a fourth industrial revolution across the world whereby various types of infrastructure and devices are connected via the Internet, and this trend is transforming licensing negotiations for the SEPs required to implement standards related to wireless communication among devices.

SEP licensing negotiations in the Information and Communication Technology (“ICT”) field traditionally took place chiefly among ICT companies. Therefore, issues were commonly resolved through cross-licensing, and the practice was to conduct negotiations as necessary after the start of a service. In addition, coming from the same industry made it easier for the parties to assess the scope, essentiality, and value of each other’s patents, so they tended to share a similar perspective on reasonable license rates.

With the spread of IoT, however, companies from a whole spectrum of different industries have begun using ICT standards, raising the possibility that they

too will be brought to the negotiating table. For example, in addition to those telecommunications companies holding SEPs, negotiations may now involve end-product manufacturers such as automobile makers as well as businesses providing services and infrastructure which do not hold strong SEPs themselves but do need to use them.

Further, there are now cases in which Patent Assertion Entities (“PAEs”) that are not engaged in business operations but rather generate revenue solely by asserting patents also become party to negotiations and disputes concerning SEPs.

As the parties to licensing negotiations become more diverse, various aspects of those negotiations too are changing. As noted above, with licensing negotiations now taking place between ICT companies and companies in other industries, it is becoming harder to resolve disputes through cross-licensing. In addition, divergent perspectives on essentiality and licensing rates are fostering unease over SEP-related negotiations and disputes.

(Motivations for Creating this Guide)

With companies from a broad spectrum of industries now finding themselves involved in SEP licensing negotiations, there is a call for appropriate information to be provided to enable businesses not familiar with such negotiations to feel confident taking a seat at the negotiating table.

A considerable body of domestic and international legal precedents has begun to accumulate in relation to SEP disputes, and government agencies around the world are developing guidelines and policy documents.¹ The concept of FRAND royalties too has been examined in a number of legal cases.

It would be useful to analyze these developments and identify elements that should be considered to achieve a balance between the interests of rights holders and implementers with respect to negotiation procedures and methods of calculating royalty rates.

¹ In November 2017, the European Commission announced the European Commission Communication on Standard Essential Patent (SEP) Licensing (below, European Communication), urging SSOs to increase SEP transparency and indicating general principles in relation to FRAND licensing terms for SEPs.

B. Nature of this Guide

The SEPs addressed in this Guide are those which the current or original rights holder has presented to an SSO as a FRAND-encumbered SEP.

This Guide is not intended to be prescriptive, is in no way legally binding, and does not forejudge future judicial rulings. It is intended to summarize issues concerning licensing negotiations as objectively as possible based on the current state of court rulings, the judgment of competition authorities, and licensing practices, etc.

While the legal basis for limiting an injunction concerning a FRAND-encumbered SEP varies from country to country according to their respective legal systems, in many cases, it seems to have been different factual situations that have led courts in different countries to reach different conclusions. Recent years have seen increasing cross-border convergence in case law as to how parties should behave in SEP licensing negotiations based on the dedication to a factual inquiry into good faith negotiations.

In these circumstances, this Guide aims to offer an explanation of what actions companies can take to make it more likely for them to be recognized as “negotiating in good faith,” helping implementers to avoid an injunction and rights holders to secure appropriate compensation. This Guide also discusses how to engage in such negotiations efficiently.

This Guide presents factors to be considered when determining a reasonable royalty, not “recipes” which can be used to automatically calculate an appropriate royalty. In other words, a solution cannot mechanically be produced by simply following this Guide. Given the diversity of SEP licensing negotiations and of the circumstances in which the parties to such negotiations are placed, a solution has to be worked out in each particular case. Not all the issues noted in this Guide will apply to all negotiations.

Our hope is therefore that this Guide might be used by qualified experts when advising small and medium enterprises (SMEs) and other parties with limited experience in dealing with SEP issues.

In formulating this Guide, we invited the submission of proposals between September 29 and November 10, 2017, receiving around 50 responses from Japan and abroad. We also called for public comments between March 9 and April 10,

2018, receiving around 50 comments from Japan and abroad. In addition, we engaged in discussions with experts from industry, academia and law, who offered many valuable comments and insights. The content of this Guide owes much to these inputs.

With the environment surrounding SEP licensing negotiations continuing to transform, we plan to review and revise this Guide as appropriate in an open and transparent process so that it continues to evolve and remains “living.”

II. Licensing Negotiation Methods

A. Good Faith

Although FRAND means “fair, reasonable and non-discriminatory”, there are two aspects to FRAND: (1) the negotiation process itself and (2) the terms of the resulting license. While the purpose of licensing negotiations is to determine whether a license is necessary, and, if so, the appropriate licensing terms, it is the negotiation process that impacts on whether or not an injunction is justified. Therefore, this chapter will address the first aspect of FRAND.

When patent rights are infringed, rights holders may in principle exercise their right to seek an injunction. When implementers intend to obtain a license on FRAND terms in good faith, however, court decisions around the world are consistent in imposing limitations on granting injunctive relief to owners of FRAND-encumbered SEPs.² There are independent and overlapping legal mechanisms by which this is achieved.

One is contracts. The rights holder gives a commitment to the SSO to grant licenses on FRAND terms. In some countries, that commitment, is contractually binding between the SSO and the rights holder, and the contract will be governed by a particular law (e.g. French law in the case of a contract with ETSI³). The laws of those countries permit a third party to enforce a contract where it is for the benefit of that party, so a third-party implementer can insist upon a rights holder granting it a license on FRAND terms. If the rights holder does not do so, or does not offer

² However, some court rulings have allowed an injunction (*St. Lawrence v. Deutsche Telekom and HTC* (Germany, district court, 2015), *NTT DoCoMo v. HTC* (Germany, district court, 2016), *St. Lawrence v. Vodafone and HTC* (Germany, district court, 2016), *Unwired Planet v. Huawei* (UK, high court, 2017)).

³ European Telecommunications Standards Institute

FRAND terms, it is in breach of contract, and it will be prevented from enforcing its patent accordingly.

Another is competition law. Where it is found that a rights holder has abused a dominant position, this constitutes a violation of competition law.

There is also a mechanism that draws on the legal principle of the abuse of rights.⁴

What, then, is regarded as a demonstration of good faith? While the way in which licensing negotiations are progressed needs to be determined among the parties on a case by case basis and with regard to the laws and rulings of the country or countries in which the patent will be implemented, the 2015 decision by the Court of Justice of the European Union (“CJEU”) in the case between Huawei and ZTE⁵ in particular has attracted wide attention. It provided a framework for good faith negotiations between rights holders and implementers by identifying actions which each of the parties should take at each stage of the licensing negotiations. This framework details the rules of negotiations from the perspective of competition law in Europe, and not every court decision in each country follows this framework. Nevertheless, the framework is considered to be a useful approach in terms of encouraging good faith negotiations whereby rights holders may fulfill their FRAND obligations and implementers may minimize their risk of an injunction, regardless of the differences among jurisdictions in the legal bases for stipulating the negotiation rules for FRAND-encumbered SEPs.

The framework, however, does not provide specific details about negotiations, such as the scope of information that the parties should submit at each stage of the negotiation and the period given to make a response. While some parties regard the lack of specific detail as increasing the flexibility of negotiations, others suggest that it undermines the predictability of licensing negotiations.

⁴ In Japan, a FRAND declaration made by an SEP rights holder to an SSO is not regarded as a contract for a third-party beneficiary (i.e., an implementer), and the rights holder is regarded as having the obligation to negotiate in good faith with the third party (the implementer) under the principle of good faith prescribed by civil law. If this obligation is not met, the exercise of injunction rights may be restricted as an abuse of rights (*Apple v. Samsung* (Japan, IP high court, 2014)).

⁵ *Huawei v. ZTE* (EU, CJEU, 2015)

Under these circumstances, this Guide has drawn on the framework presented by the CJEU and informed by court decisions in various countries and actual practices in SEP disputes in listing more specific issues relating to actions that parties may take at each stage of licensing negotiations. Framework details should eventually emerge through the accumulation of rulings over the coming years.

It should be noted that simply satisfying the various elements noted in this Guide provides no guarantee of recognition of good faith. Rather, a comprehensive assessment of the negotiating process as a whole needs to be made in each case.

Once again, this Guide is not intended to be prescriptive, and the manner in which negotiations are progressed should be determined among the parties on a case by case basis.

*[Steps of the Licensing Negotiation Process]*⁶

Step 1: Licensing Negotiation Offer from Rights Holder

Step 2: Expression from Implementer of Willingness to Obtain a License

Step 3: Specific Offer from Rights Holder on FRAND Terms

Step 4: Specific Counteroffer from Implementer on FRAND Terms

Step 5: Rejection by Rights Holder of Counteroffer/Settlement of Dispute in Court or through ADR

1. Step 1: Licensing Negotiation Offer from Rights Holder

(Overview)

In general, if an implementer is suspected to have infringed patent rights, the rights holder may initiate negotiations with the implementer by specifying the relevant patents and identifying how those patents have been or are being infringed.⁷

⁸ In some cases, an entity that manages a framework enabling patents held by

⁶ The list below is not intended to suggest that each of the five steps is necessarily mandatory in every case. Steps may vary according to the particular case.

⁷ The framework in *Huawei v. ZTE* (EU, CJEU, 2015) suggests that the rights holder first alerts the alleged infringer of their infringement by identifying the patents and specifying the way they have been infringed.

⁸ In the field of telecommunications, although implementers often start a negotiation only after receiving an invitation to license from a rights holder, because of the large number of SEPs

multiple rights holders to be licensed efficiently in a single transaction (“patent pool”) may negotiate in place of the rights holder.

It is common for the rights holder to substantiate the infringement by providing to the implementer, among other things:^{9 10}

- (1) Documents identifying the SEPs (list of patent numbers,^{11 12} the names of the standards at issue, the geographical scope of patents, etc.); and
- (2) Documentation mapping claims of the SEPs to the standards and/or products (claim charts,¹³ etc.).

When a rights holder holds large numbers of SEPs, the parties sometimes discuss limiting the negotiations to key patents so as to rationalize the negotiation process (refer to II.B.4.).

(Documentation Mapping Claims of the SEPs to the Standards and/or Products)

Rights holders provide documentation to implementers at the start of negotiations so that implementers can see how the SEP claims map to standards and/or their own products. It is common for rights holders to use claim charts to indicate the correlation between products that are actually manufactured and patent claims.

and/or patentees, it may be useful for parties to refer to the framework of this Guide even if such negotiations are initiated by the implementer before it launches business operations.

⁹ Besides these, there is a view that rights holders may demonstrate their good faith by, for example, presenting evaluations by third-party experts and examples from past cases, etc.

¹⁰ In some cases including where the SEP has a substantial licensing history, the implementer may decide that such substantiation is unnecessary.

¹¹ In *NTT DoCoMo v. HTC* (Germany, district court, 2016), the court stated that it is necessary to at least indicate the patent number. In *Sisvel v. Haier* (Germany, high court, 2016), the court stated that it is an industry practice to present 10 to 15 representative patents as a “proud list.”

¹² In *NTT DoCoMo v. HTC* (Germany, district court, 2016), the court stated that rights holders need to inform the implementer that the patent is declared standard essential to an SSO.

¹³ In *Sisvel v. Haier* (Germany, high court, 2016), the courts stated that at this stage of the licensing procedure, it was not yet necessary to explain the infringement act by providing claim charts. Meanwhile, in *NTT DoCoMo v. HTC* (Germany, district court, 2016), the courts stated that claim charts based on practices are sufficient for substantiating the infringement.

Claim charts may be useful for implementers in analyzing whether they are infringing the SEPs. Meanwhile, by presenting claim charts, the rights holders may demonstrate that they are providing information in good faith to implementers.

When patents are SEPs and the details of patent claims are consistent with standards documents, and if the implementers advertise that their products conform to the applicable standards, the act of indicating the correspondence between patent claims and standards may be sufficient. Thus, mapping patent claims to actual products may not always be necessary.¹⁴

Some claim charts explain the connection between claim terminology and the corresponding features of the standards documents or products. In some cases, rights holders may claim that the explanation includes confidential information. In such situations, the parties may conclude a confidentiality agreement (non-disclosure agreement) in licensing negotiations. (Refer to II.B.3.)

While both claims and standards documents are made public and are not in themselves confidential, rights holders tend to require the conclusion of confidentiality agreements as a condition for providing claim charts on the grounds that the correspondence between claim terminology and standards documents and the interpretation thereof constitute confidential information. Implementers, on the other hand, tend to argue that in cases where claim charts only provide a simple comparison between claim terminology and standards documents, the charts do not constitute confidential information and should not be subject to a confidentiality agreement.

If a rights holder demands that an implementer enter into a confidentiality agreement as a condition for providing claim charts even when the rights holder can prepare claim charts that do not include confidential information, this may increase the likelihood of the rights holder being perceived as acting in bad faith. On the other hand, if an implementer demands that a rights holder provide detailed claim charts that do include confidential information while refusing to conclude a confidentiality agreement, this may increase the likelihood of the implementer being perceived as acting in bad faith.

¹⁴ In *Fujitsu v. Netgear* (U.S., CAFC, 2010), the court stated that if an accused product operates in accordance with the standards, then comparing the claims to the standard is the same as comparing the claims to the accused product. The court also stated that if the relevant section of the standard is optional, standards compliance alone would not establish that the accused infringer chooses to implement the optional section.

(Documents Demonstrating the Essentiality of SEPs)

When a rights holder and an implementer cannot agree on the essentiality of a patent, they may obtain an analysis from an independent evaluator (an independent company or organization that provides the service of reviewing patents for essentiality). The JPO has a system in which a panel in the Trial and Appeal Department provides an advisory opinion with no legally binding force in relation to the technical scope of a patented invention, and from April 2018 started offering a determination of the essentiality of a patented invention. .

Declaration documents, in which rights holders made a FRAND declaration to SSOs, are based on the rights holders' technical assessment that the patents are essential, but not assessment by a neutral third party.

(Notes on Rights Holders' Actions)

The following are examples of actions by a rights holder that may increase the likelihood of the rights holder being perceived as acting in bad faith:

- (1) Demanding injunctive relief before or immediately after sending a warning letter to the implementer, or immediately after opening a negotiation;
- (2) Not disclosing its documents identifying the SEPs and documentation mapping SEP claims to the standards and/or products such as claim charts, when offering licensing negotiations to an implementer, such that the implementer can understand the rights holder's claims;
- (3) Claiming that it will not provide documentation mapping SEP claims to the standards and/or products such as claim charts to the implementer unless the implementer concludes a confidentiality agreement, even though the documentation does not include confidential information;
- (4) Making an offer that sets a time limit that does not allow a reasonable period of time for consideration; or
- (5) Not disclosing the content of a portfolio to the implementer (the technologies, number of patents, regions, etc., covered by the portfolio).

Some argue that the information which the rights holder needs to provide additionally so that the implementer can garner the necessary information for negotiations is less extensive in the case of a patent license once granted to the

implementer that has since expired than in the case of concluding a new licensing agreement.^{15, 16}

2. Step 2: Expression from Implementer of Willingness to Obtain a License

(Overview)

When an implementer receives an offer from a rights holder for licensing negotiations, it may help to mitigate risk for the implementer not to leave that offer unanswered even if it does not agree with the rights holder's offer, but instead to respond in good faith.¹⁷

After receiving documents including those identifying the SEPs and claim charts from the rights holder, if the implementer concludes that it needs to obtain a license for the SEPs, it may express its willingness to conclude a licensing agreement with (that is, to obtain a license from) the rights holder. Some argue that this willingness should be gauged by the implementer's actions rather than words—in other words, not just the expression of willingness but evidence of this in the way that the implementer approaches negotiations.

Some hold the view that, when an implementer receives an offer from a rights holder for licensing negotiations, the implementer should promptly express its willingness to obtain a license even if discussions are still being conducted about essentiality, validity, and infringement, reserving the right to challenge these issues. Others take the view, however, that parties should first conduct discussions about essentiality, validity, and infringement before the implementer expresses its willingness to obtain a license.

¹⁵ *Unwired Planet v. Huawei* (UK, high court, 2017)

¹⁶ There is a view, however, that it may require attention because the patent portfolio of the SEP licensor may have changed significantly (e.g., patents have been added to the portfolio or have expired).

¹⁷ In *Huawei v. ZTE* (EU, CJEU, 2015), the court stated that the alleged infringer should diligently respond to the SEP holder's offer, in accordance with recognized commercial practices in the field and in good faith, this being a matter that must be established on the basis of objective factors and which implies, in particular, that there are no delaying tactics.

(Countermeasures by Implementers)

In practice, a rights holder and an implementer in licensing negotiations may not see eye-to-eye, and may fail to reach an agreement on essentiality, validity or infringement. In such cases, the implementer can express its willingness to obtain a license without waiving its right to challenge these issues.^{18 19}

An implementer may still challenge, for example, the following issues on patent rights for which it intends to obtain a license:

- (1) Whether the patents are truly essential;
- (2) Whether the patents are valid;
- (3) Whether the implementer has infringed these patents;
- (4) Whether the patents are enforceable²⁰;
- (5) Whether the entity who has exercised its rights is the true holder of the patents; and
- (6) Whether the patents have not been exhausted.

When implementers challenge the issues identified above, they may be required to provide specific grounds of such positions. For example, it is useful for them to provide, among other things:

- (1) Documents that provide the basis for the implementers' refutation that they do not infringe the subject patents;
- (2) Prior art that serves as grounds for invalidating the patents;
- (3) Technical information that provides the basis for the argument that patents are not essential; and

¹⁸ In *Huawei v. ZTE* (EU, CJEU, 2015), the court stated that an implementer "cannot be criticized either for challenging, in parallel to the negotiations relating to the grant of licenses, the validity of those patents and/or the essential nature of those patents to the standard ... or for reserving the right to do so in the future" and the court did not cause implementers to waive their defenses, even while indicating their willingness to take a license.

¹⁹ In *Apple v. Samsung* (Japan, IP high court, 2014), although the implementer Apple insisted that its product did not infringe and argued that the patent was invalid, the court found Apple to be willing to obtain a license.

²⁰ Under U.S. law, patents can be held unenforceable if the rights holder engages in inequitable conduct before the United States Patent and Trademark Office by, for example, withholding material information with the intent to deceive (*Therasense v. Becton* (U.S., CAFC, 2011)).

- (4) Documentation that provides the basis for the argument that patents are not enforceable.

(Reasonable Amount of Time for Response)

When reference materials provided by rights holders to implementers are not sufficient, such as not identifying the SEPs or including claim charts, it may serve to mitigate risk for the implementers to promptly request the rights holders to provide such materials.

The reasonable amount of time needed for the implementer to express its willingness to obtain a license after receiving such information from the rights holder may vary depending on various factors, such as the number of patents at issue, the complexity of the technology, the level of knowledge the implementer may have about the technology, any prior relationship, business transactions, and the state of a dispute on essentiality, validity, and infringement between the parties.

If there are relatively few patents at issue and the implementer is familiar with the technology, it may be reasonable, in some cases, for the implementer to express its willingness to obtain a license in a relatively short period of time.

On the other hand, if there are a significant number of patents at issue and the implementer is unfamiliar with the technology, several months or more may be a more reasonable time frame. For example, when a SEP-implementing component supplied by a third party is used in an end product, the end product manufacturer, if involved in the negotiations on the implementers' side, may need to obtain technical details about that component from the third-party supplier and thus may need more time to respond. If the initial substantive response requires more time, it may help to mitigate risk for the implementer to notify the rights holder and explain the specific reasons for the extra time needed so that it is not perceived as a deliberate delay (refer to II.B.1.).

(Notes on Implementers' Actions)

The following are examples of actions by an implementer that may increase the likelihood of the implementer being perceived as acting in bad faith:

- (1) Not giving any reason for a very late reply or refusing to negotiate at all, even while continuing to use the infringing (or potentially infringing) technology²¹;
- (2) Claiming it will not start negotiation unless all grounds for essentiality and validity of the SEPs are first provided;
- (3) Unreasonably delaying negotiations by, for example, persistently demanding that the rights holder provide information that cannot be disclosed due to a confidentiality agreement(s) with others;
- (4) Completely refusing to conclude a confidentiality agreement, while demanding that the rights holders provide claim charts, including detailed claim interpretations containing confidential information, or making repeated revisions to confidentiality agreement conditions to delay negotiations;
- (5) Repeatedly making meaningless responses; or
- (6) Colluding with multiple other implementers in obstinately refusing to obtain a license on the grounds that others have not obtained it.

Even when the implementer deems that the reference materials provided by the rights holder are insufficient, making no response at all may increase the likelihood of the implementer being viewed as acting in bad faith. In such a case, it may help to mitigate risk for the implementer to respond to the rights holder at least by, for example, requesting specific and necessary reference materials.

When discussions about essentiality, validity, and infringement of the SEPs are still ongoing, it may not necessarily be viewed as acting in bad faith if an implementer does not promptly express its willingness to obtain a license. On the other hand, some courts have ruled that implementers should promptly express their willingness to obtain a license while reserving their right to challenge issues of

²¹ U.S. Dept of Justice and U.S. Patent and Trademark Office, Policy Statement (2013); In *Apple v. Motorola* (U.S., CAFC, 2014), the court stated that an injunction may be justified where an infringer unilaterally refuses a FRAND royalty or unreasonably delays negotiations to the same effect.

essentiality, validity, and infringement of SEPs.^{22 23} Thus, from the perspective of minimizing the risk of injunction, it would be safer for an implementer to express its willingness to obtain a license at an early stage of the negotiations while reserving its right to challenge issues of SEP essentiality, validity, and infringement.

3. Step 3: Specific Offer from Rights Holder on FRAND Terms

(Overview)

If an implementer has expressed its willingness to obtain a license, the rights holder may promptly present to the implementer a written offer for a license on FRAND terms. In addition to indicating its royalty calculation method (refer to III.), the rights holder normally presents specific grounds explaining why the offer is on FRAND terms. This is done for an implementer to determine whether the presented terms are reasonable and non-discriminatory.²⁴

For portfolios containing a large number of SEPs, even in cases where a rights holder presents a royalty offer based on comparable licensing terms accepted by the market, it may still be helpful for that rights holder to provide an explanation with specific grounds sufficient for the implementer to determine whether the terms are reasonable and non-discriminatory.

Such specific grounds may include²⁵:

²² In *St. Lawrence v. Vodafone and HTC* (Germany, district court, 2016), the court stated that five months is too long to express its willingness to obtain a license after the initial warning by the rights holder, even taking into account that the implementer was a network operator and was to be allowed a certain period for consultation with the manufacturers of the challenged mobile phones. In *St. Lawrence v. Deutsche Telekom and HTC* (Germany, district court, 2015), the court stated that, considering that the implementer was a mobile phone manufacturer, three months was too long to express its willingness to obtain a license after the filing of an infringement lawsuit.

²³ *Huawei v. ZTE* (EU, CJEU, 2015).

²⁴ In *Philips v. Archos* (Germany, district court, 2016), since the royalty calculation method was not included in the FRAND offer, the right to seek injunctive relief was not upheld.

²⁵ For example, rights holders may also be able to present prices of products or components that are used as the basis of the royalty calculation, the ownership ratio of the rights holders relative to the total number of SEPs related to the standard, and the date of expiration of patents.

- (1) An explanation of how the rights holder calculates royalties²⁶ (sufficient for the implementer to objectively understand that the terms presented satisfy the FRAND obligation.²⁷) ; or
- (2) A list of comparable licenses and their terms, if any,²⁸ (including royalties paid to, or received from, other companies for equivalent technologies, royalties by patent pool, etc., which may or may not be disclosed depending on the terms of confidentiality agreements) (refer to II.B.3. and III.A.3.a.).

(Notes on Rights Holders' Actions)

The following are examples of actions by a rights holder that may increase the likelihood of the rights holder being perceived as acting in bad faith:

- (1) Seeking an injunction against an implementer who has expressed its willingness to obtain a license on FRAND terms before offering a license on those terms, for the purpose of gaining leverage in the licensing negotiations;^{29 30}
- (2) Sending letters warning that the rights holder will seek injunctive relief (cease-and-desist letters) to business partners of an implementer who has expressed its willingness to obtain a license on FRAND terms, despite ongoing negotiations³¹;

²⁶ In *Sisvel v. Haier* (Germany, high court, 2016), the court stated that the rights holder needed to show the factors that formed the basis of its royalty calculation.

²⁷ In *NTT DoCoMo v. HTC* (Germany, district court, 2016), the court stated that the rights holder needed to make it possible for the implementer to understand that the offer satisfied FRAND terms based on objective criteria.

²⁸ In *Sisvel v. Haier* (Germany, high court, 2016), the court stated that if there is a license program of the same quality and scope as the portfolio, it is necessary to make a comparison with that program.

²⁹ In *Realtek v. LSI* (U.S., federal district court, 2013), the court stated that seeking injunctive relief before offering a license on FRAND terms is a breach of contractual obligations.

³⁰ In *Microsoft v. Motorola* (U.S., court of appeals for the ninth circuit, 2012), the court stated that seeking injunctive relief in a related case in Germany before the decision of the U.S. court is “vexatious or oppressive”.

³¹ In *Imation v. One-Blue* (Japan, district court, 2015), the court stated that it is an announcement of a falsehood and falls under unfair competition to notify a customer of the

- (3) Presenting an initial offer that is clearly unreasonable given court rulings and comparable licensing terms, and sticking to that offer during the negotiation process³²; or
- (4) Not explaining how the royalty is calculated or not demonstrating that the license offer is on FRAND terms.

4. Step 4: Specific Counteroffer from Implementer on FRAND Terms

(Overview)

If an implementer disagrees with the proposed FRAND terms presented by a rights holder, the implementer may provide a FRAND counteroffer. When presenting such a counteroffer, in addition to indicating the royalty calculation method (refer to III.), the implementer normally indicates specific grounds demonstrating that its counteroffer is on FRAND terms. This is done for a rights holder to determine whether the presented terms are reasonable and non-discriminatory.

Such specific grounds may include:

- (1) An explanation of how the royalty presented by the implementer is calculated (sufficient that the rights holder can objectively understand that the terms presented satisfy the FRAND obligation); and
- (2) A list of comparable licenses and their terms, if any (including royalties paid to, or received from, other companies for equivalent technologies, royalties by patent pool, etc. which may or may not be disclosed depending on the terms of confidentiality agreements) (refer to II.B.3. and III.A.3.a.)

implementer who expresses its willingness to obtain a license on FRAND terms that the rights holder can seek injunctive relief.

³² In *Microsoft v. Motorola* (U.S., federal district court, 2012), the court stated that since a FRAND declaration anticipates that the parties will negotiate toward a FRAND license, it logically does not follow that the initial offers must be on FRAND terms but must comport with the implied duty of good faith and fair dealing inherent in every contract. In *Unwired Planet v. Huawei* (UK, high court, 2017), the court stated that offers in a negotiation that involve rates higher or lower than the FRAND rate, but do not disrupt or prejudice the negotiation, are legitimate.

(Reasonable Amount of Time for Response)

The reasonable time period from when an implementer receives an offer on FRAND terms from a rights holder until the implementer presents a counteroffer is determined on a case by case basis. When the technologies of the SEPs are not complicated, the implementer may present its counteroffer in a relatively short period of time. When technological complexity or other issues require a certain amount of work to prepare a response, it may be deemed reasonable for an implementer to respond in several months or more.

Factors that may determine what constitutes a reasonable amount of time to provide a counteroffer include: the number of patents at issue, the complexity of the technology, the number and type of products at issue, whether any comparable royalty rate exists, and whether the parties are negotiating a worldwide license or regional license (refer to II.B.1).

(Notes on Implementers' Actions)

The following are examples of actions by an implementer that may increase the likelihood of the implementer being perceived as acting in bad faith:

- (1) Not providing any counteroffer on FRAND terms after a rights holder has presented specific grounds showing that its proposed licensing terms are FRAND³³;
- (2) Presenting an initial counteroffer that is clearly unreasonable given court rulings and comparable licensing terms, and sticking to that counteroffer during the negotiation process³⁴; or
- (3) Not explaining how a proposed royalty is calculated or not demonstrating that the counteroffer is on FRAND terms.

An implementer who does not provide a counteroffer on FRAND terms may not immediately be viewed as being in bad faith when further discussions are needed to determine the technical relationship between the subject patents and the standards

³³ In *Apple v. Motorola* (U.S., CAFC, 2014), the court stated that an injunction may be justified when an implementer unilaterally refuses a FRAND royalty or unreasonably delays negotiations to the same effect. In *NTT DoCoMo v. HTC* (Germany, district court, 2016), the court granted injunctive relief where the implementer did not respond or make a counteroffer for 1.5 years after receiving the FRAND offer and six months after the filing of the court action.

³⁴ See Footnote 32.

as well as the validity of the patents, or when a rights holder does not provide any specific offer on FRAND terms or the basis thereof.

5. Step 5: Rejection by Rights Holder of Counteroffer/Settlement of Disputes in Courts or through ADR

(Overview)

Generally, negotiations proceed through a process of offer and counteroffer between rights holders and implementers, but if a rights holder rejects a counteroffer from the implementer and the parties fail to reach an agreement, and if one or both parties does not wish for time to go by without agreement being reached, they may be able to address their dispute in court.³⁵

As an alternative to litigation, the parties may agree to settle their disputes through Alternative Dispute Resolution (ADR), such as mediation or arbitration.

(Utilization of ADR)

Since it may be unrealistic for a court to determine the essentiality, validity, and infringement of dozens, or potentially even hundreds, of SEPs, a rights holder may choose several of its important patent rights to bring to court. Some argue that the greater procedural flexibility of ADR such as mediation and arbitration makes it more effective in terms of promptly settling SEP disputes over a large number of domestic and international patents.

Unless used as a tool to intentionally delay negotiations or increase cost, ADR may be a more prompt and more cost-effective approach, compared to a lawsuit.³⁶ In addition, parties have more flexibility in setting their own rules and procedures. As an example, parties can agree that arbitrators will make decisions only on

³⁵ In *Realtek v. LSI* (U.S., federal district court, 2013), the court stated that if a putative implementer refuses to pay what has been determined to be a FRAND royalty, or refuses to engage in a negotiation to determine FRAND terms, an injunction could be appropriate.

³⁶ Although forms of ADR such as arbitration may not be quicker and more cost effective than litigation in every case, there is a view that arbitration has numerous benefits over litigation with respect to efficiency (*Benefits of Arbitration for Commercial Disputes*, American Bar Association).

royalties for SEPs on FRAND terms, without considering the essentiality and validity of the SEPs.³⁷

In particular, an international arbitration process may be used to reach a single settlement globally as arbitral awards overseas are recognized and enforced under the New York Convention.

Some consider, however, that there are demerits to the use of ADR. For example, ADR requires prior agreement between the disputing parties, which means that disagreements over procedures can become protracted; it is difficult to determine the validity of patent rights through ADR; and the content of ADR is undisclosed and thus lacking transparency.

Some argue that proposing or accepting the use of ADR could be considered as evidence of good faith in negotiations, while others regard it as a rather weak indicator of good or bad faith in most cases. Either way, while the refusal of ADR options may not immediately be viewed as bad faith, continuing to do so may be seen as bad faith in some cases.³⁸

(Security Offered by Implementers)

Under the framework presented in the CJEU decision in the case between *Huawei v. ZTE*, the court stated that when an alleged infringer has used SEPs before concluding any licensing agreements, from the time its counteroffer is refused, the alleged infringer is required to provide appropriate security in accordance with recognized commercial practices in Europe, for example by providing a bank guarantee or by placing the necessary amounts on deposit. It also stated that “[t]he calculation of that security must include, inter alia, the number of the past act of use of the SEP, and the alleged infringer must be able to render an account in respect of those acts of use.” This is based on the idea that it would be contradictory and therefore unfair for the implementer to assert its willingness to pay the license fee but actually fail to do so even while using the product.

Although providing such security may be a factor in considering good faith, an implementer’s failure to offer security may not necessarily increase the likelihood

³⁷ There are many ways parties can structure ADR, including authorizing a neutral (or panel of neutrals) to decide certain discrete issues or make non-binding recommendations as to those issues.

³⁸ In *Huawei v. Samsung* (China, intermediate court, 2018).

of being viewed as bad faith in regions outside Europe, such as Japan and the United States. There is a view, however, that where an implementer lacks the financial capability to meet its financial obligations under a license ultimately to be concluded, the implementer could be viewed as acting in bad faith for not providing appropriate security.

There is also a view that the provision of security gives both parties the incentive to negotiate in good faith.

(Exercise of Right to Seek Injunction)

Around the world, there has been an accumulation of legal precedents concerning SEP-related injunctions. Most courts have imposed limitations on the exercise of the right to seek an injunction against implementers who have responded in good faith, and have determined that it would be appropriate for a rights holder to be allowed to exercise its right to seek an injunction when implementers have responded in bad faith during the negotiation process.

Nonetheless, grounds for restricting the rights of SEP owners to seek injunctions vary by country. For example, there have been cases in which the exercise of the right to seek an injunction was restricted based on, in the United States, the requirements for seeking injunction, as detailed in the decision by the Supreme Court in the *eBay* case and the contractual effects of FRAND declarations to SSOs on third parties³⁹; in the U.K., the contractual effects of FRAND

³⁹ In the United States, in general, an injunction (35 U.S.C. 283) takes into account the four requirements identified in *eBay v. MercExchange* (U.S., Supreme Court, 2006). A plaintiff must demonstrate: (1) that it has suffered an irreparable injury; (2) that remedies available at law, such as monetary damages, are inadequate to compensate for that injury; (3) that, considering the balance of hardships between the plaintiff and defendant, a remedy in equity is warranted; and (4) that the public interest would not be disserved by a permanent injunction. Regarding SEPs, in both *Microsoft v. Motorola* (U.S., federal district court, 2013) and *Apple v. Motorola* (U.S., CAFC, 2014), the court regarded the FRAND commitments to the SSO as a contract between the rights holder and the SSO for a third-party beneficiary, and did not grant injunctive relief because the rights holder did not satisfy one of the factors in *eBay* (U.S., Supreme Court, 2006), namely “that it has suffered an irreparable injury,” because the contract between the two parties enabled the rights holder to obtain relief via the royalty paid by the implementer. In *Apple v. Motorola*, parties’ attitudes toward negotiations are also considered as a factor.

declarations to SSOs on third parties⁴⁰; in Europe, a violation of the Competition Law by the rights holder's abuse of its dominant position⁴¹; and in Japan, the rights holder's abuse of patent rights.⁴²

Also, competition authorities in Japan and Europe suggest that demanding an injunction against an entity that is willing to obtain a license on FRAND terms may be a violation of competition law.⁴³ The competition authority in the United States does not agree that this conduct comprises the basis for a competition violation.⁴⁴

B. Efficiency

To conduct licensing negotiations smoothly, it is also important to consider efficiency along with good faith. The following sections address key points that should be considered for the efficient conduct of FRAND-based negotiations.

[Factors for Efficient Negotiation]

1. Notification of a Timeframe
2. Parties to Negotiation in Supply Chain
3. Protecting Confidential Information
4. Choice of Patents subject to Negotiation
5. Geographic Scope of License Agreement

⁴⁰ In *Unwired Planet v. Huawei* (U.K., high court, 2017), the court stated that the contractual effect of the FRAND declaration to an SSO will extend to third parties.

⁴¹ In *Huawei v. ZTE* (EU, CJEU, 2015), the court identified the steps that the rights holder must take before seeking injunctive relief, such as alerting the implementer or presenting a specific, written offer for a license on FRAND terms. The court held that if the implementer improperly delays after these steps are taken by the rights holder, an injunction will not violate competition law and seeking injunctive relief will be justified.

⁴² In Japan, there is no provision that limits an injunction in general, but regarding SEPs, in *Apple v. Samsung* (Japan, IP high court, 2014), seeking injunctive relief against a person who is willing to obtain a license was deemed to be an abuse of rights.

⁴³ See, for example, *Motorola v. Apple* (EU, EC, 2014); *Samsung v. Apple* (EU, EC, 2014); “Guidelines for the Use of Intellectual Property under the Antimonopoly Act” (The Japan Fair Trade Commission, 2016).

⁴⁴ Makan Delrahim, Assistant Attorney General, Antitrust Division, U.S. Department of Justice (DOJ), stated as a view of the DOJ that “it is just as important to recognize that a violation by a patent holder of an SSO rule that restricts a patent-holder’s right to seek injunctive relief should be appropriately the subject of a contract or fraud action, and rarely if ever should be an antitrust violation.”

6. Patent Pool Licensing
7. Greater Transparency of SEPs

1. Notification of a Timeframe

For negotiations to proceed smoothly, it is desirable for the parties to notify each other of the overall expected timeframe as well as the timeframe required for each of the stages identified in II.A above.

The negotiation timeframe may vary widely. Factors that may be considered in setting reasonable expectations for a timeframe may include, but are not limited to: the number of patents at issue, the complexity of the technology, the number of different products and types/nature of the products at issue, matters pending in the courts or patent offices that relate to issues underlying the negotiation (e.g., essentiality and validity), and the number of licenses the patent owner has already granted for the SEPs.

In the case that an implementer seeks to secure a relatively long negotiation timeframe, there is a view that the specific grounds need to be explained to the rights holder to gain their understanding.

Naturally, as discussions proceed, there may be events that require the timeframe to be changed. Nonetheless, discussing and clarifying the expected timeframe early on can enable both parties develop a shared sense of the likely negotiation timeframe.⁴⁵

In particular, with product lifecycles becoming shorter, there is some concern that prolonged negotiations could prevent the timely recovery of the investment that would allow for investment in next-generation technologies. Some argue that protracted negotiations may also lead to engineers and other resources that should have been channeled into R&D instead being used for negotiations, creating a major burden.

⁴⁵ While the overall negotiation timeframe will vary by case, some suggest as a rough reference to what prompt completion might look like that complex cross licenses with vast portfolios might complete in 12 months, one-way licenses with fewer SEP families at stake in 9-12 months, and simple one-way licenses with a few patents in 6-9 months. Others, however, do not like the idea of any numerical benchmark for negotiation timeframes.

While some consider that notifying the estimated length of time for licensing negotiations may increase the likelihood of that party being perceived as acting in good faith, others suggest that not doing so will not necessarily be perceived as bad faith.

2. Parties to Negotiation in Supply Chain

(Overview)

With the spread of IoT, the use of standards has become more common. One issue often arising during negotiations is which entities in the manufacturing supply chain should be parties to licensing negotiations (e.g., component suppliers versus end-product manufacturers). There may not be a problem in selecting the parties to a negotiation as long as the parties can agree based on industry practices. Problems may arise, however, if, for example, a component installed in the end product implements a SEP.

While the level of the main parties to negotiations should be determined on a case by case basis, in the interests of, for example, making license management easier, rights holders generally tend to want to conclude license agreements with the end-product manufacturer.⁴⁶ On the other hand, the end-product manufacturer tends to want the supplier that has the most technical knowledge on the subject component to be the party involved in negotiating and concluding the licensing agreement. This tendency is especially evident in industries where the general practice is for the supplier to accept a patent indemnification agreement that puts the burden of licensing fees on the supplier.

(Implementer Who Will be the Party to Licensing Negotiations)

In general, the rights holder is in the position to decide with which party in the supply chain it signs an agreement, e.g., end-product manufacturer, component manufacturer, or sub-component manufacturer.

⁴⁶ While some argue that the reason that rights holders want to negotiate with end-product manufacturers is that they hope they will be able to gain more royalties that way, just as licensing rates change according to the basis of calculation (refer to III.A.2.), licensing rates too change according to where the main parties to the negotiation stand in the supply chain (lower for end-product manufacturers and higher for component suppliers), leading some parties to suggest that negotiating with end-product manufacturers does not necessarily produce more royalties.

Meanwhile, there is some debate globally on whether FRAND-encumbered SEPs should be licensed to anyone who desires to obtain such a license.^{47 48}

There are some end-product manufacturers that consider it discriminatory and contrary to FRAND commitments if the rights holder refuses to negotiate with the supplier manufacturing the component when it requests to be the party to the licensing negotiations. On the other hand, some consider it inappropriate for the end-product manufacturer to refuse all negotiations when the rights holder requests it to be the party to the licensing negotiations.

In addition, some argue that if the essential part of the patented invention is used only in the components provided by the supplier, it is appropriate for the supplier to be the party to the licensing negotiations. Others argue that if the essential part of the patented invention contributes to the end product, it is appropriate for the end-product manufacturer to be the party in licensing negotiations.

In any case, since there is a risk that injunctive relief against infringement may be granted against entities regardless of whether they are suppliers or end-product manufacturers if no entity in the supply chain obtains the license, all supply chain entities need to be aware of the status of conclusion of licensing agreements.

(Arguments from the Standpoint of Number of Players)

Some argue that having the end-product manufacturer involved in negotiations is most efficient, in that the licensing negotiations can then cover all the components contained in a product and consequently minimize the number of

⁴⁷ The idea that rights holders must license all entities wishing to obtain licenses regardless of the level in the supply chain is commonly referred as “license to all.” On the other hand, the idea that the FRAND declaration is not a requirement for licensing to all parties using standard technology, but is rather a mechanism to ensure that those who want to use standard technology can access that technology is commonly referred as “access for all.”

⁴⁸ In 2015, the Institute of Electrical and Electronics Engineers (IEEE) amended its patent policy to state that rights holders should be willing to make licenses available to anyone who requests a license. Objections to this amendment have been made by rights holders (IEEE-SA Standards Board Bylaws (2015)).

necessary negotiations as well as reduce negotiation costs, while also avoiding issues such as discrepancies in the licensing terms between suppliers.⁴⁹

On the other hand, others suggest that there may also be cases in which including suppliers in the negotiations is more efficient, such as when a small number of suppliers are supplying components to a large number of end-product manufacturers, and the rights holders can minimize the number of negotiations by conducting licensing negotiations with such suppliers.

(Arguments from the Standpoint of Exhaustion and Double Earnings)

It is generally considered that when a product that is protected by a patent is placed legitimately on the market by a rights holder or a licensed implementer, the patent is exhausted, so the rights holder may not exercise its rights against someone who has purchased the product.⁵⁰ In this connection, if a rights holder concludes licensing agreements with multiple suppliers within a single supply chain, some are concerned that it may become unclear which right has been exhausted, and could more readily lead to the issue of double earnings by the rights holder or underpayment to the rights holder. Others argue that such issues may be avoided by conducting licensing negotiations with the end-product manufacturer.

Another view, however, is that end-product manufacturers face difficulties in ascertaining the status of licensing agreements concluded upstream and in identifying a double-earnings issue, and therefore that the involvement in negotiations of those parties manufacturing components included in the technical scope of patent rights is valuable in terms of avoiding the double-earnings issue.

⁴⁹ One view is that where SEPs are not limited to a component (i.e., a portfolio of SEPs covering more than just one component), it may be unnecessarily complicating to include component suppliers in negotiations because that will result in splitting up or sub-categorizing the portfolio.

⁵⁰ In the United States, when a component manufacturer has a patent license and an end product incorporating the licensed component is sold, it may not be possible to obtain a royalty from the end-product manufacturer because the patent is exhausted by the first sale of the component (*Quanta v. LG* (U.S., Supreme Court, 2008)). That is, a sold component may exhaust patents to a larger product when the component “substantially embod[ies] the essential features of the patent when the only reasonable and intended use [of the component] is to practice the patent [in the larger product].” On the other hand, in *Apple v. Samsung* (Japan, IP high court, 2014), the court stated that when rights holders sell components used only for the manufacture of a patented product, the patent is exhausted while when a third party does not even have an implied license and is manufacturing the end-product using that component, the patent is not exhausted.

(Arguments from the Standpoint of Technical Knowledge)

Some argue that where an end-product manufacturer without detailed knowledge of the technologies involved is the main party to the negotiation, they will need to coordinate with all their suppliers throughout the negotiation process, which may lengthen the process and also push up the cost. Accordingly, they argue that it may be more efficient for those suppliers of technologies that fall within the scope of the patent claims, who consequently have the necessary technical knowledge, to be party to licensing negotiations.

Conversely, there is also a suggestion from the perspective of rights holders wishing to negotiate with end-product manufacturers that it is possible to acquire information on the technical content from the suppliers without involving them in the negotiations.

(Sharing the Burden of Licensing Fees)

When the rights holder requests payment of licensing fees after the product is sold, how this payment burden should be distributed within the supply chain sometimes becomes an issue. In particular, in the ICT industry, this issue tends to occur because entities commonly start licensing negotiations after the service is launched.

There are certain industries in which a patent indemnification agreement may be concluded whereby the supplier shoulders the payment of licensing fees. In such situations, even when the license fee negotiated by the end-product manufacturer as the party is excessive and disproportionate to the price of the component, the supplier may be requested to bear the burden.⁵¹

To avoid such a situation, some patent indemnification agreements exempt SEPs. Some argue that, in order to avoid an excessive burden on suppliers, licensing fees should be apportioned out across the supply chain according to the essential parts of the invention within the scope of the patent claim.

⁵¹ There has been a ruling that where suppliers party to patent indemnification agreements do not meet their obligation to provide end-product manufacturers with the necessary documents, etc., they should shoulder part of the licensing fee paid by the end-product manufacturer to the rights holder (*Softbank v. Kanematsu* (Japan, IP high court, 2015)).

Others suggest that it may be reasonable to incorporate in a patent indemnification agreement a provision to exempt the supplier from responsibility to pay the licensing fee if the supplier was not given the chance to be involved in the licensing negotiations. Some have also suggested that it might be reasonable to include a provision that exempts suppliers from the responsibility to pay more than an amount corresponding to the price of the component. Another opinion is that if suppliers are required to shoulder licensing fees, the price for their components should reflect the technical value of the SEP.

3. Protecting Confidential Information

(Overview)

A confidentiality agreement (non-disclosure agreement) ensures that information that is sensitive from a business or technical perspective and that is disclosed during negotiations is not disclosed in turn to a third party. By concluding a confidentiality agreement, the parties may find it easier to disclose sensitive information, thus leading to a more efficient licensing negotiation.

On the other hand, a party should take care in the wording of a confidentiality agreement to avoid the risk of being prevented from presenting information later in court as proof of good faith negotiations.

(Confidential Information of the Implementers)

Potentially confidential implementer information might include business-related information (e.g. market forecasts and sales information, etc.), and technical information about the implementer's products that is not publicly available.

If the rights holder exercises SEPs over products or methods of manufacture not open to the public, an implementer may want to consider whether to disclose proprietary technical information (such as blueprints of semiconductors or software source code) in order to counter effectively the specific grounds for infringement presented by the rights holder.

By contrast, if the allegedly infringing product which is the subject of the negotiations is one which the rights holder can obtain to assess whether there is an infringement of its patents, such as a general-purpose mechanical invention, it may be apparent from inspection of the product whether it practices the patent(s), and the

disclosure of confidential technical information by the implementer may not be required.

When the subjects of discussion are centered on the correspondence between patent claims and the standard documents, there may be cases where the implementer does not need to disclose confidential technical information regarding the product.

(Confidential Information of Rights Holders)

Potentially confidential rights holder information might include an explanation of claim terminology and the corresponding sections in the standard documents (refer to II.A.1.), and the terms of comparable licenses, such as the rate or the amount used to explain and support a FRAND offer.

(Provisions for a Confidentiality Agreement)

When concluding a confidentiality agreement, the following are examples of provisions that may be discussed depending on the circumstances of each negotiation:

- (1) Which information needs to be kept confidential
- (2) Who will receive confidential information
- (3) How will confidential information be marked
- (4) Whether orally communicated information will be covered
- (5) The duration of the agreement
- (6) Whether information can later be used in litigation as a defense
- (7) The duration of the confidentiality obligation
- (8) Information exempted from confidentiality (information within the public domain and legitimately acquired information, etc.)

(Maintaining Confidentiality of the Process, Content, and Result of the Licensing Negotiations)

The parties may also consider setting forth confidentiality provisions applicable to the process, content, and result of the licensing negotiations. On the one hand, facts such as what kind of information has been disclosed at what point in a series of negotiations is often important in reading other parties' thinking on and approach to business and to patents, and parties often want complete confidentiality, to the extent that even the existence of a resulting license agreement is confidential,

so as to ensure against, for example the deliberate choice of only certain parts of the negotiation proceedings for disclosure.

On the other hand, often the existence and the content of the licensing agreement are not treated as confidential so that the agreement may be assessed as a “comparable license” in the future. The parties may want to consider, in view of the above, for example, whether all terms and the existence of an agreement will be confidential, whether only its monetary terms will be confidential, or whether only sales volume information (e.g., past sales) will be confidential, etc.

4. Choice of Patents Subject to Negotiation

Whether licensing negotiations are conducted on a portfolio basis or by patent is determined by the parties on a case by case basis. SEP licensing negotiations are often conducted as portfolio negotiations from the standpoint of a comprehensive settlement.

When rights holders possess a large number of SEPs, however, the parties may discuss limiting the subject of the negotiation to “representative” patents so as to streamline the negotiation process. When doing so, there is a view that it may be desirable for the parties to explain the reason for selecting the patents as representative.

As an example, in a case involving several hundred SEPs, the parties may hold discussions on just those patents deemed the most valuable (generally 30 at most),⁵² or select random samples to efficiently assess the total value. They might also independently categorize the patents into tiers, analyze the top few from each tier to get an idea of the topology of the overall portfolio’s quality, and get together to compare results. In such cases, one view is that concluding all licensing agreements, including those SEPs that were not the subject of discussion, as a single package is an efficient approach in terms of administration.

⁵² In *Sisvel v. Haier* (Germany, high court, 2016), the court asked the rights holder to present a “proud list” of 10-15 patents from a portfolio of over 400 patents and to explain the reason for choosing them.

The parties may also discuss whether the negotiations will include non-SEPs in addition to SEPs.⁵³ While it is up to the parties to choose which particular patents will be included, it may, for example, be efficient to include in the negotiation a commercially essential patent (a patent for which there exists a technical alternative but which is practically inescapable due to cost/performance issues)⁵⁴ or non-SEPs. There are also cases of licensing through frameworks whereby implementers can choose which SEPs they wish to license.⁵⁵

5. Geographic Scope of Licensing Agreement⁵⁶

With regard to the geographic scope of a license, parties generally consider whether a license will be limited to particular regions or globally applicable. When setting the geographic scope, the parties may want to consider on a case by case basis whether the implementer is producing or selling products in multiple regions throughout the world, as well as how many patents the rights holder holds and the strength thereof, in those jurisdictions.

Some argue that, given the international distribution of ICT and other standardized technologies, it would be more efficient to address SEPs in all countries and regions in which an implementer may produce and/or sell its products in future

⁵³ It should be kept in mind that licensing negotiations where rights holders seek to cover non-SEPs in addition to SEPs do not conflict with the “tying” of competition law, provided that rights holders do not use their market power to coerce payment for non-SEPs. There is a view that portfolio licensing can be efficient under competition law principles and that such licensing efficiencies have the potential to outweigh competition concerns associated with tying. (U.S. Dep’t of Justice and Federal Trade Commission, Antitrust Guidelines (2017))

⁵⁴ Certain SSOs explicitly rule out the concept of commercial essentiality in their IPR policies, defining essentiality solely on a technical basis (patents covering a technology must a technical or engineering matter).

⁵⁵ For example, in some patent pools, SEPs are divided into basic functions and options, and the implementer can choose the scope of the SEP which they wish to license.

⁵⁶ There are various discussions about courts setting licensing terms globally. In *Unwired Planet v. Huawei* (U.K., high court, 2017), although Huawei as the implementer refused to allow the court to set global licensing terms, the court set the licensing terms globally. Meanwhile, in *TCL v. Ericsson* (U.S., federal district court, 2017), the court set the licensing terms globally, because of the fact that the TCL, the implementer, had already agreed to allow the court to set global licensing terms.

in addition to those countries and regions where it currently does so.⁵⁷ There is also a view that global licensing agreements allow easier and more efficient license management, as, for example, they do not require agreements to be amended if the implementer expands its business geographically. Others argue that an implementer may well conclude a licensing agreement covering only those countries or regions where it is operating or has a concrete plan to operate.

Also, there are some cases of global licenses granted on different licensing terms for different regions.⁵⁸

If the implementer is producing and/or selling its product in multiple regions, there is a view that where the implementer requests a licensing agreement for patent rights only in such specific countries/regions with consideration to the specific circumstances of the patents in each, care should be taken to prevent this from turning into a delaying tactic in the negotiations.

6. Patent Pool Licensing⁵⁹

In patent pools, wide participation by rights holders and implementers may produce licensing terms that balance the interests of both, which may boost the efficiency of licensing negotiations compared to individual bilateral negotiations amongst multiple parties.

Where a rights holder participates in a patent pool, the general practice is for that rights holder to approach licensing negotiations with implementers through the body managing the patent pool.

⁵⁷ In *Unwired Planet v. Huawei* (U.K., high court, 2017), the court found it reasonable to address SEPs in all countries and regions in which the implementers currently produce and/or sell and/or may do so in future.

⁵⁸ In *Unwired Planet v. Huawei* (UK, high court, 2017), the court found that licenses granted on FRAND terms are global, while taking regional differences into consideration, it showed different royalty rates among different markets. In *TCL v. Ericsson* (U.S., federal district court, 2017), the court divided regions into the United States, Europe, and the rest of the world and set the royalty rates globally. It should be noted that certain entities disagree with the authority of a court to set license terms outside of its jurisdiction when one of the parties questions whether it is within the court's authority to set such terms.

⁵⁹ Refer to III.A.3.a.(c) on the licensing terms for pooled patents.

Additionally, patent rights that are registered in a pool are normally checked to some extent for essentiality by a third party. Although this does not necessarily guarantee essentiality, it is expected that it may lead to greater SEP transparency.

On the other hand, there are some cases where standard-related licensing issues cannot be resolved in one patent pool, such as where there are rights holders granting licenses individually, where there are multiple patent pools, or where there are companies holding other patents such as commercially essential patents.

Some point out that patent pools do not necessarily improve efficiency if rights holders who grant licenses individually participate in the patent pool, as this may cause double royalty earnings on the part of such rights holders. Because of this, some patent pools establish mechanisms to prevent double royalty earnings.⁶⁰

Implementers aiming to resolve disputes through cross licensing must bear in mind that this will not be possible with bodies managing patent pools that are not implementing the invention. There is also a view that patent pool participation does not rule out cross licensing, and that an implementer can simply pay the royalties of those pool members with which it does not have a cross licensing agreement.

7. Greater Transparency of SEPs

Enhancing transparency in regard to the essentiality and validity of SEPs leads to more efficient licensing negotiations. The European Communication expects SSOs to promote the development of databases with information on SEPs.⁶¹ It also expects rights holders to provide information on SEPs to SSOs, so the SSOs can then update their information.

With SSOs building up databases and widely providing information on SEPs, it will become easier for rights holders to obtain the necessary documents when presenting offers for licensing negotiations or FRAND licensing terms. It will also become easier for implementers to obtain information on SEPs related to relevant standards.

⁶⁰ For example, in the case that an implementer already has a licensing agreement with a rights holder, there are agreements whereby the royalty amount that is already agreed is subtracted from the royalty amount set for the pool.

⁶¹ The European Communication urges SSOs to improve the quality of their SEP database in order to enhance transparency on SEPs and refers to launching a pilot project on the standard essentiality of SEPs.

On the other hand, there is also a view that rights holders may need to be compensated for the cost of boosting transparency and the possibility of their own patents being deemed inessential or invalid that is inherent in enhancing SSO databases, so as not to reduce the motivation to participate in standardization.

III. Royalty Calculation Methods

As mentioned earlier, there are two aspects of FRAND: (i) the negotiation process itself and (ii) the terms of a license. This chapter will address the second aspect of FRAND.

FRAND licensing terms include not only royalties but also non-monetary aspects such as cross-licensing, but because there are no established criteria for reasonable and non-discriminatory royalties in SEP licensing negotiations, the parties often disagree on the appropriate FRAND terms.

Therefore, this chapter will address royalty calculation methods in detail, based on standard practices and the framework indicated by past court rulings. It should be noted, however, that this Guide only identifies issues that may be considered in relation to calculation methods and does not direct any particular way for parties to arrive at a specific royalty rate or amount. Royalty rate calculation methods should be determined flexibly by the parties on a case by case basis, and the calculation methods outlined in this chapter may not necessarily be used.

A. Reasonable Royalties

1. Basic Approach

Royalties reflect the value that the patent has contributed to the product and therefore is obtained by:

(1) Royalty base (Calculation base) x (2) Royalty ratio (Rate)

This approach may also be applied to the calculation of SEP royalties. There has been intense discussion, however, on issues such as how to handle the value added after a technology has been incorporated into a standard, how to identify the

calculation base, and how to calculate the royalty rate. These issues are discussed further below.⁶²

(Value Added after Incorporation into a Standard)

There is a view that SEP royalties should reflect only the value of the patented technology before the standard is widely adopted in the market (generally called “ex ante”). This is based on the idea that, when a technology is being considered to form part of a standard, it is selected from multiple technological options, while once it is incorporated into the standard, it is used only out of necessity to adhere to the standard.⁶³

Based on this premise, there are cases where the royalty is assessed at a point in time before the standard is widely used and set promptly after the standard is announced, then kept at that level regardless of the success or failure in the markets of the products implementing the SEPs.

On the other hand, there is a view that the “ex ante” approach is not practical in calculating the damages for infringement of patent rights because the amount of damages should incorporate the value of the patented invention at the time of implementation, and a part of such value is created by the technology successfully becoming the standard. Furthermore, there is also a view that it is inappropriate to adopt the “ex ante” approach because it would lead to the profit from standardization being distributed only to implementers and not to rights holders.⁶⁴

⁶² For example, U.S. courts often apply the fifteen Georgia-Pacific factors (referred to as “GPF”) for calculating the royalty. With FRAND-encumbered SEPs, modified GPFs have been adopted. (*Microsoft v. Motorola* (U.S., federal district court, 2013))

⁶³ See *Ericsson v. D-Link* (U.S., CAFC, 2014).

⁶⁴ In *Unwired Planet v. Huawei* (UK, high court, 2017), the court stated that the rights holder could appropriate some of the value that is associated with the inclusion of the technology into the standard and the value of the products using the standards.

2. Royalty Base (Calculation Base)

(Identification of the Problem)

As for the calculation base, debate has centered on whether the smallest salable patent practicing unit (“SSPPU”)⁶⁵ or the entire market value (“EMV”)⁶⁶ should be adopted.⁶⁷

The SSPPU approach is based on the premise that if a SEP technology is used only in the component that is the SSPPU, the price of that component to which the SEP is considered to contribute will then be the calculation base. Meanwhile, the EMV is an approach taken when the SEP technology is considered to contribute to the function of the whole end product and to drive demand for the product, and the price of the whole end product will be the calculation base.

While these are approaches devised by courts in calculating damages equivalent to a reasonable implementing fee in patent infringement cases, they could also be used in actual licensing negotiations as a reference in determining reasonable royalties.

There are many cases in which the rights holder has insisted on the adoption of the EMV approach based on its view that the SEP technology contributes to the function of the entire end product and drives product demand. Likewise, there are many cases in which the end-product manufacturer has insisted on adoption of the

⁶⁵ In *In re Innovatio* (U.S., federal district court, 2013), the court stated that the top-down approach starts with the average price of a Wi-Fi chip. In *Virnetx v. Cisco* (U.S., CAFC, 2014) the court stated that “[w]here the smallest salable unit is, in fact, a multi-component product containing several non-infringing features with no relation to the patented feature..., the patentee must do more to estimate what portion of the value of that product is attributable to the patented technology.”

⁶⁶ In *CSIRO v. Cisco* (U.S., CAFC, 2015), the court stated that if a party can prove that the patented invention drives demand for the accused end product, it can rely on the end-product’s entire market value as the royalty base.

⁶⁷ In *LaserDynamics v. Quanta* (U.S., CAFC, 2012), the court stated that it is generally required that royalties be based on the SSPPU approach, citing the concept of “the smallest salable infringing unit” in *Cornell University v. Hewlett-Packard* (U.S., federal district court, 2009), but stated that if it can be shown that the patented feature drives the demand for an entire multi-component product, the entire product could be used as the royalty base, and rights holders may be awarded damages as a percentage of revenues or profits attributable to the entire product.

SSPPU approach based on its view that the contributions of the SEP technology are confined to just a portion or component of the overall end product.

In the days when debate focused on cellular phones, where communication technology was central to functionality, many parties supported the use of EMV. The emergence of products such as smart phones and self-driving cars for which communications technology accounts only for a part of the product's functions, however, has raised debate over the use of SSPPU or EMV.

(Approach to the Calculation Base)

A feature shared by both approaches (SSPPU and EMV) is the attempt to identify the calculation base according to where the contribution of the essential part of the SEP lies.⁶⁸

In addition, the SSPPU and the EMV methodologies are not the only possibilities for considering a royalty base. The point is that a suitable calculation base for each individual case should be considered.

For example, some argue that when the essential part of the SEP technology supports the operation of functions of a device larger than a chip and contributes to the functions of the device beyond the chip itself, using the price of the chip as the SSPPU may not reflect the real value provided by the SEP technology.

On the other hand, other suggest that when the contribution of the essential part of the SEP technology is confined to the chip itself and the chip is independent and has an objective market value, the price of the chip may be deemed appropriate as the calculation base.

Even when the SEP technology goes beyond a particular chip, there is a view that the SSPPU is an effective starting point for discussion in accumulatively and elaborately analyzing the product portions to which the SEP technology contributes. This view emphasizes that the basis of the calculation should not exceed the scope of the contribution of the essential part of the SEP technology for which a license is being sought.

⁶⁸ In *Ericsson v. D-Link* (U.S., CAFC, 2014), the court stated that the ultimate reasonable royalty award must be based on the incremental value that the patented invention adds to the end product.

Contrarily, there is an approach using the EMV as the starting point of discussion and determining the calculation base by multiplying the end product by the ratio of the contribution to the end product of all the SEPs that cover the technical standard.⁶⁹

There is a view that the EMV approach may lead to a high calculation base with a fixed rate, resulting in a high royalty. Conversely, there is another view that the SSPPU approach may reduce the base with a fixed rate, resulting in a low royalty.

Some argue, however, that when the calculation base is small, the rate will be high, while a large calculation base causes the rate to be low, selecting the calculation base not directly relevant to the resulting royalty amount in theory.

3. Royalty Rate

(Approaches to Rate Determination)

Of the many different approaches to determining an appropriate royalty rate, two frequently identified in court decisions are (i) determining the share of contribution of a particular SEP, by referencing, for example, existing comparable licenses (bottom-up approach); and (ii) calculating the share in the calculation base of the contribution of all SEPs for a given standard and then allotting a share to individual SEPs (top-down approach).

These two approaches are not contradictory. Both approaches may be combined to calculate the rate so as to ensure a more reliable rate through comparison of the results.⁷⁰

⁶⁹ In *Apple v. Samsung* (Japan, IP high court, 2014), because the design, use interface, camera, audio function, etc. contribute to the product in addition to the wireless communication function, the court stated that the basis of the calculation should be multiplied by the rate that it is deemed was contributing to the product by complying with the standard (contribution rate).

⁷⁰ In *Unwired Planet v. Huawei* case (UK, high court, 2017), while adopting a bottom-up approach, the court double-checked whether royalty stacking has occurred with a top-down approach. On the other hand, in *TCL v. Ericsson* case (U.S., federal district court, 2017).), while adopting a top-down approach, the court double-checked with a bottom-up approach.

When there is an existing comparable license, some argue for referring to it,⁷¹ whereas others argue for taking the top-down approach that first considers the contribution of all SEPs even in that situation.

a. Bottom-Up Approach

Examples of comparable licenses include those of patents owned by the same rights holder and patents owned by others essential to the same standard or a similar standard.

The following are examples of factors that have been considered in court cases and practice in determining whether a license is comparable:

- (1) Whether the license is for the same or similar patents,
- (2) Whether the license covers unrelated technology or different products⁷²,
- (3) Whether the license has a similar fee structure (e.g., lump-sum or running royalty)
- (4) Whether the nature of the license is the same in terms of exclusivity⁷³
- (5) Whether the license applies to similar territories (e.g., a regional or global license)
- (6) Whether the terms of the license are widely accepted
- (7) Whether the license has been achieved through a court settlement or through normal negotiations
- (8) How recent the license is, and
- (9) Whether the licensee has a sufficient negotiating strength to enable balanced negotiations.

⁷¹ In *Laser Dynamics v. Quanta* (U.S., CAFC 2012), the court stated that actual licenses for the patented technology are highly probative as to what constitutes a reasonable royalty for those patent rights, because such actual licenses most clearly reflect the economic value of the patented technology in the marketplace.

⁷² In *ResQNet v. Lansa* (U.S., CAFC, 2010), the court stated that the trial court should not rely on unrelated licenses to increase the reasonable royalty rate above rates more clearly linked to the economic demand for the claimed technology.

⁷³ In *Lucent v. Gateway* (U.S., CAFC, 2009), the court stated that GPF3 (exclusive or nonexclusive) is applicable as a consideration factor.

(a) Comparable Licenses Held by the Same Patent Holder

In practice, it is often difficult to identify existing licenses that are identical or sufficiently similar to a potential license under discussion. On the one hand, when existing licensing agreements were concluded under circumstances that differ from the parties' present circumstances, the existing licenses may generally be referenced when the parties determine the royalty rate if they can account for the differences, but the effectiveness of such references may vary depending on the level of difference.^{74, 75}

When there are great differences between the circumstances of an existing license and present circumstances and it is difficult to reasonably account for such differences, it may then be difficult to consider the existing license as being comparable and it will have less value in determining an appropriate royalty rate.⁷⁶

(b) Comparable Licenses Held by Third Parties

In referring to the existing licensing terms of third parties who hold SEPs for the same standard, it may be possible to calculate an appropriate rate by comparing the number of SEPs owned by the rights holder to those held by the third party and multiplying the ratio obtained.

In this case, the rate may be adjusted taking into account the value of the specific SEPs. It should also be noted that some third parties inflate the number of SEPs through divisional patent applications.

Some view the limited availability of comparable licenses held by third parties and the difficulty of evaluating other parties' portfolios as standing in the way of making comparisons of licensing terms.

⁷⁴ In *Ericsson v. D-Link* (U.S., CAFC, 2014), the court stated that allegedly comparable licenses may cover more patents than are at issue in the action, include cross-licensing terms, cover foreign intellectual property rights, or, as here, be calculated as some percentage of the value of a multi-component product.

⁷⁵ In *Virnetx v. Cisco* (U.S., CAFC, 2014), the court stated that the "degree of comparability" of the license agreements is applicable as a consideration factor.

⁷⁶ In *Laser Dynamics v. Quanta* (U.S., CAFC 2012), the court stated that the propriety of using prior settlement agreements to prove the amount of a reasonable royalty is questionable. On the other hand, there are some arguments that licenses in litigation could also be referred to as comparable licenses.

(c) Patent Pools

As a reference in determining a FRAND rate, parties may compare the rate charged by a patent pool for the same standard. If the degree of contribution to the standard of SEPs owned by the rights holder is higher than that to the patents in the patent pool, the rate for the SEPs may be higher than that for the patent pool. Meanwhile, if the degree of contribution to the standard of SEPs owned by the rights holders is lower than that to the patents in the patent pool, the rate for the SEPs may be lower than that for the patent pool.

It may also be necessary to note that, a relatively low royalty is set as a result of taking into account the fact that negotiations, contracts, and the management of royalties are streamlined in many patent pools,⁷⁷ while some pools choose to set a relatively high royalty by including non-essential patents.

The licensing terms of a patent pool are not always comparable. The coverage rate and licensing record of the patent pool may be considered to assess whether there is comparability.⁷⁸

There may also be cases where the patent pool situation differs from that of licenses negotiated bilaterally because the rate is set by multiple rights holders. It should also be noted that some rights holders are inflating SEP numbers through divisional patent applications.

b. Top-Down Approach

(Overview)

Determining an appropriate rate by calculating the ratio of the contribution of all the SEPs for the standard in the calculation base is generally known as the top-down approach. In this approach, the aggregate royalty rate is calculated as the extent

⁷⁷ In *Microsoft v. Motorola* (U.S., federal district court, 2013), the court concluded that the royalty was triple the pool royalty.

⁷⁸ In *Microsoft v. Motorola* (U.S., federal district court, 2013), the court stated that the problem with using patent pools as the de facto RAND royalty rate is that the patent-counting royalty allocation structure of pools does not consider the importance of a particular SEP to the standard or to the implementer's products as the court's hypothetical negotiation requires.

of the contribution of all SEPs to the standard (total royalty rate for all SEPs that cover the standard), then allotted to individual SEPs.⁷⁹

(Avoiding Royalty Stacking)

When many rights holders individually demand royalties, there may be cases in which each royalty “stacks up,” making the cost for practicing the standard excessively high. This is called royalty stacking, and is an issue that may occur when there are many rights holders that hold SEPs for the same standard.

As the extent of the contribution of all SEPs to the standards defines the total rate, there is a view that the top-down approach is effective in avoiding such royalty stacking. From this standpoint, when the bottom-up approach is used, it may be beneficial to check for royal stacking by also making a calculation using the top-down approach.

While some parties believe that royalty stacking is occurring in practice, others suggest that there is no concrete proof of this.

4. Other Factors to Consider in Determining Rates

In addition to the calculation base and the rate described above, other factors may also be considered in practice, as identified below.

a. Number of Licensees that Agreed to the Royalty Rate

The more licensees have agreed to a particular rate, the easier it may be to show that it is an established royalty rate and FRAND. Therefore, the number of existing licensees may be taken into consideration.

On the other hand, some point out that the number of licensees may not be relevant in the initial phase of licensing activities.

⁷⁹ In *Apple v. Samsung* (Japan, IP high court, 2014), the court adopted a top-down approach and set the aggregate royalty rate at 5% for 3G based on the claims of the parties. In addition, in *TCL v. Ericsson* (U.S., federal district court, 2017), the court set the aggregate royalty at 5% for 2G/3G and at 6% or 10% for 4G.

b. Scope of License⁸⁰

In determining the appropriate royalty, the parties may also consider whether there is a restriction on where or to whom to sell the products.

c. Essentiality/Validity/Infringement of Patent

If a patent turns out to be inessential to a standard or invalid, or if there is no infringement, there is normally no need to obtain a license for the patent in order to implement the standard. An implementer, however, may make a business judgement to sign licensing agreements, even if it not convinced of essentiality, validity, or infringement, because of the risks and costs of litigation, or in view of future implementation of the standard. In such cases, the implementer may seek a suitable discount to the royalty.

The number of existing patents changes over time. Where there are patent rights which expire, patent rights which are acquired or divested, or patent rights which are newly registered, the number of patents subject to licensing will change.

d. Value of Individual Patents

Since the value of individual SEPs is inherently different, in calculating an appropriate royalty, sometimes weights are used rather than a simple ownership ratio to reflect the value of individual patents more accurately.⁸¹ In such cases, some argue that patents that are extremely important to the standard should command a higher rate, while patents that are less important should command a lower rate. Others suggest that patents that have been inflated through divisional patent application should command a lower rate.

⁸⁰ Corresponding to GPF3.

⁸¹ In *In re Innovatio* (U.S., federal district court, 2013), for example, the rights holder's patents were all of moderate to moderate-high importance to the standard, and therefore warranted a higher rate as compared to other patents essential to the standard. In *Unwired Planet v. Huawei* (UK, high court, 2017), the court allowed both parties to call expert witnesses to weigh the value of each patent. In *Apple v. Samsung* (Japan, IP high court, 2014), the court took patent weighing into consideration in determining that the contribution of the patent subject to litigation was not large.

In cases where the parties involved find it not practical to accurately analyze the value of individual patents, however, the value of individual patents is treated as equal (pro rata).⁸²

e. Negotiating History

The negotiation history between the parties is another factor that influences the determination of an appropriate royalty. If there is no difference in the royalty agreed with an implementer who has engaged in negotiations in good faith and that with an implementer who has acted in bad faith, there will be little incentive to negotiate in good faith. From that perspective, one approach is to give a suitable discount to a licensee who concludes a license soon after receiving a license offer, or one who requests a license before an offer is made.

In this way, the length of the negotiating period for an implementer compared to that for other implementers in similar situations may be a factor in determining an appropriate royalty. There is a possibility that an implementer who delays or impedes negotiations will pay a substantially higher royalty.

Likewise, the royalty may become higher after a lawsuit has been initiated, as compared to a case in which the parties came to an agreement in the negotiations. In license negotiations, a rights holder may offer pre-litigation licensing rates at a discount. This indicates that once litigation starts, what is considered a reasonable royalty may become higher.⁸³

On the other hand, some argue that because FRAND terms require rights holder to license SEPs to a wide range of parties, it is not suitable to give discounts to parties acquiring licenses early, or to demand high royalties from parties who delayed negotiations or took the rights holder to court.

⁸² In addition, one royalty allocation method is based on the number of technologies adopted among contributions at the standard formulation stage, not the number of declared patents. This method can eliminate the influence of non-essential patents.

⁸³ In *Laser Dynamics v. Quanta* (U.S., CAFC 2012), the court recognized that licensing rates in settlement agreements entered into during litigation may be higher than the rate that would have been reached outside of litigation due to the coercive nature of litigation itself.

B. Non-discriminatory Royalties

SEP holders can demand royalties at FRAND terms from implementers, but those royalties have to be non-discriminatory. There are disputes regarding what constitutes non-discriminatory.

1. Concept of Non-Discrimination

Although FRAND licensing terms have to be non-discriminatory, this does not mean that all potential licensees must obtain licenses at the same royalty rate and amount. It is instead considered to mean that similarly situated licensees should not be treated differently.⁸⁴ Factors in considering whether licensees are similarly situated include whether the standard technology is used in the same way, the level of the company in the supply chain, and the geographic scope of the licensees' business activities.^{85 86}

2. Royalties for Different Uses

In an IoT era, ICT is being used in various industries, and some rights holders consequently argue for different royalty rates and amounts for the same standard technology according to the particular use of that technology in the end product.

Specifically, in the ICT field, there is a view that it is not discriminatory for a rights holder to apply different royalties for the same standard technology for

⁸⁴ In *Unwired Planet v. Huawei* (UK, high court, 2017), the court stated that it is discriminatory if the difference in the royalty rates distorts competition between the two licensees in the market. In *TCL v. Ericsson* (U.S., federal district court, 2017), regardless of whether it generally distorts the development of competition or standards, even if the implementer is alone, the court stated that it is discriminatory if the difference in the royalty rates causes damage.

⁸⁵ In *TCL v. Ericsson* (U.S., federal district court, 2017), the court concluded that the following factors could be considered in determining whether two companies are similarly situated: the geographic scope of the companies, the licenses required by the companies, and sales volumes. The court also concluded that the following factors should not be considered in determining whether two companies are similarly situated: overall financial success or risk, brand recognition, the operating systems of their devices, and the existence of retail stores.

⁸⁶ Courts are divided on whether or not the FRAND rate should be a range. In *Microsoft v. Motorola* (U.S., federal district court, 2013), the court determined an upper and lower bound of the FRAND range for Motorola's SEP portfolio. On the other hand, in *Unwired Planet v. Huawei* (UK, high court, 2017), the court determined that each region has only one FRAND royalty rate apiece.

products that fully utilize the functions of the technology (e.g., high-speed, high-capacity; low latency) and those that only use some of the functions of the technology.

On the other hand, some implementers argue that the same royalty rates and amounts should be applied for the same standard technology regardless of the means by or extent to which it is used.

Specifically, they argue that if different rates and amounts are allowed according to the means of utilization of a technology, it could lead to the value created by downstream inventors being allotted to rights holders, running counter to the “ex ante” principle.

In addition, there is one view that where suppliers are granted licenses based on SSPPU, because the application of the suppliers’ components is unknown, it can be difficult to apply different royalties depending on the end-product.

C. Other

There are several methods for paying royalties, and different methods will be selected depending on the circumstances.

1. Fixed Rate and Fixed Amount

There is a fixed royalty rate and a fixed royalty amount. A fixed royalty rate is determined as a ratio of the price of the whole product and the price of product components. It is necessary for implementers to know the price of products at all times when the price fluctuates according to market conditions, involving complicated procedures.

In order to reduce such complications, in practice, a method of deciding on a fixed amount of royalties per unit regardless of fluctuations in the price of a product may be used. Although it then becomes relatively simple to collect royalties in such a case, when the price of a royalty-bearing product varies over time, this may result in the royalties on product prices becoming too high or low for implementers.

2. Lump-Sum Payment and Running Royalty Payments

There are lump-sum payments and running royalty payments for paying royalties.⁸⁷

For lump-sum payments, there are advantages in being able to avoid the risks of non-payment of royalties and the burden of monitoring whether the technology is being used. At the same time, with the royalty fixed and paid before the future sales performance of the implementer's product (the actual usage of the technology in the market) has been established, royalties may in hindsight be too high or too low. Consequently, where both the rights holder and the implementer seek to conclude a lump-sum royalty agreement, they generally set terms that take into consideration predicted product sales.

For running royalty payments, although it is possible to calculate royalties that reflect the actual usage of the technology, this adds the cost of monitoring to make sure the amount to be paid will increase or decrease appropriately in response to changes in sales.

3. Past Component and Future Component

Royalties paid by those implementing SEPs from the past into the future can be calculated by considering both past and future implementation. In such cases, different formulas are used to calculate past and future royalties. For example, there are cases where the past royalty component has been calculated as a lump sum while the future component is calculated using a fixed-rate running formula.

4. Volume Discounts and Cap (Paid-up)

As an incentive to large-scale implementers, a discount rate may be applied for royalty payments over a certain level, or a ceiling set for royalty payments.

⁸⁷ In *Lucent v. Gateway* (U.S., CAFC, 2009), the court stated that a running royalty is risky to rights holders because such a royalty is subject to the sales of the implementer, while a lump-sum payment does not require monitoring of sales. On the other hand, the court stated that a lump-sum payment has the benefit of being easy to calculate but may not accurately reflect the value of the patent to the technology.

Postscript

Why has the Japan Patent Office engaged with the issue of SEP licensing negotiations? A year ago, it was proposed that JPO look into the introduction of an administrative adjudication system to determine SEP licensing terms. We concluded that a system based on implementer petitions would upset the balance between rights holders and implementers. We were also concerned that introducing such a system would send the wrong message at home and abroad that JPO is dismissive of rights holders' concerns.

How, then, could we address implementers' concern that the smooth introduction of new technologies could well be blocked depending on the way in which SEPs were exercised? Our answer was to provide information that would help implementers without experience in this field to engage in licensing negotiations more effectively and efficiently, forestall disputes, and achieve early dispute resolution.

From fall 2017 through to spring 2018, we sought the views of experts here and abroad to gain a sense of the debates underway around the world. There was no way to absorb such a massive amount of constantly evolving information. We decided to concentrate on setting up the most open process we could manage to garner a broad range of information and opinions, identify the key issues, and present these in a balanced and straightforward manner.

This Guide was compiled by a small team in a limited amount of time, and is consequently far from perfect. Our presentation of both sides of the debate may also be difficult to follow in some places, but it does reflect the heat of the discussion and the lack of convergence over certain points.

That convergence will eventually emerge as technologies and markets continue to evolve and cases of dispute resolution accumulate, while new issues too will inevitably emerge. We look forward to updating this Guide as appropriate with reference to advice from experts here and abroad.

Naoko Munakata
Commissioner

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