

Decision on Patent Law

Patent Act Secs. 104^{ter}, 123, 128, Code of Civil Procedure Sec. 338 “Knife-processing Device”

A patentee whose patent has been regarded as invalid by the courts can only be heard with the argument that such patent was successfully upheld in amended form in a correction trial before the Patent Office where such trial was conducted without unreasonable delay.

Supreme Court, 24 April 2008

Facts

This somewhat lengthy and complicated litigation concerns the relationship between a pending infringement action, and parallel actions before the Patent Office in order to limit the patent to a scope that avoids a nullity declaration by the courts, yet is still broad enough to cover the allegedly infringing embodiment.

In September 2001, the plaintiff raised a patent infringement action before the Osaka District Court against the defendant, claiming injunctive relief. The suit was essentially based on an alleged infringement of independent claim 1. The defendant both pleaded invalidity of claim 1 before the court and filed an invalidation action before the Patent Office. On 30 January 2004, the Patent Office invalidated claim 1, whereupon the plaintiff added an infringement claim of claim 5 before the District Court. The latter in a decision of 21 October 2004 also held claim 5 invalid and dismissed the action. The plaintiff appealed and simultaneously requested a limitation of the patent before the Patent Office by way of a correction trial under Sec. 126 Patent Act. After two requests for limitation had been rejected by the Patent Office, the patentee on 18 April 2006 filed the third request. On 31 May 2006 the Osaka High Court affirmed the first instance decision that claim 5 was invalid. The patentee appealed to the Supreme Court and made two further attempts to limit the patent to an acceptable scope. Based on the fifth request for limitation, the Patent Office on 29 August 2006 held the limitation allowable, a decision that has become final.

The plaintiff now argues before the Supreme Court that the appeal court erroneously held the patent invalid – as the subsequent Patent Office decision demonstrated – that the appeal court decision was based on such error and for that reason should be set aside.

From the decision

[*By the majority*]...The limitation that has an *ex tunc* effect was made in order to restrict the scope of the claims, and the grounds for invalidating the patent cited by the appeal court may have been overcome. If this is so, and while the allegedly infringing products still fall within the scope of the patent after such limitation, the appellant may be entitled to injunction and damages. These may constitute grounds for a retrial under Sec. 338(1)(viii) Code of Civil Procedure.

Even so, the appellant in relying on the final and binding decision of the Patent Office is causing an unreasonable delay in bringing this patent litigation to a close. In light of Sec. 104^{ter} Patent Act, this must be considered as inequitable conduct. According to Sec. 104^{ter} (1) Patent Act, it is not a proper exercise of rights to rely on a patent likely to be invalidated by the Patent Office. The court does not have to wait for the Patent Office to actually invalidate such right, and the provision thereby helps to promptly solve patent litigation. Also to this end, Sec. 104^{ter} (2) Patent Act allows the court to dismiss the estoppel of invalidity if raised only in order to unreasonably delay proceedings...When interpreted according to its purpose, the provision allows the court not only to dismiss the estoppel of invalidity, but also any argument or allegation raised as a defence thereto, even if based on a successful trial for limitation...

Any defence against the estoppel of invalidity could have been brought by the plaintiff before the first instance infringement court. Under Sec. 104^{ter} Patent Act, the plaintiff should have brought this defence at least at the appeal stage after the first instance court held the patent invalid. When looking at the contents of the limitation trial and the fact that the plaintiff filed and withdrew two requests for limitation at the appeal stage, there is no justification why the defence of validity based on the limitation proceedings was not raised in the phase of oral hearings before the appeal court. Relying on the defence of validity based on the successful outcome of the correction trial at this late stage means that the plaintiff now invokes a defence that should have been raised at the stage of oral hearings before the appeal court. To entertain this defence at this stage would mean an unreasonable delay in concluding this litigation, and this cannot be reconciled with Sec. 104^{ter} (2) Patent Act....

[*By Judge Izumi*] I agree with the majority, but for different reasons...In my view, a final decision by the Patent Office in a correction trial cannot be a ground for a retrial under Sec. 338(1)(viii) Code of Civil Procedure.... After all, for the defendant to raise the estoppel of invalidity, no invalidation decision by the Patent Office is necessary. The estoppel can be successfully raised once the patent is likely to be invalidated by the Patent Office. Vice versa, a defence against such estoppel does not require a final decision of validity by the Patent Office. Rather, it is sufficient to convince the infringement court that the patent could be successfully restricted in a limitation action, while the defendant's products would still fall within the scope of the patent.... Thus, in determin-

ing the estoppel of invalidity under Sec. 104^{ter} Patent Act, the infringement court not only scrutinises the Patent Office's decision to grant the patent, but also the likelihood that a request for limitation will be successful.... A final and conclusive decision of the Patent Office based on a request for limitation therefore cannot be regarded as a change of the administrative act on which the court's decision is based.... If the plaintiff in patent infringement procedures does not argue that a request for correction before the Patent Office would in most likelihood succeed, the court cannot rule on this point, and the plaintiff is barred from raising this issue at a later stage in proceedings. But to say that a request for limitation has been successful is equal to the argument that such a request, if made, would succeed....

(Translation C. H.)

Comment

1. Prior to the so-called "Kilby" decision of 2000,¹ the courts in infringement proceedings had no power to hold the patent invalid. This was the exclusive domain of the Patent Office, and a defendant of an infringement suit thus had to petition for invalidity before the Patent Office in order to raise such defence.² Such is the system of Germany³ and China,⁴ while Korea has followed Japan.⁵ The underlying rationale for such bifurcation is that an administrative decision such as the grant of a patent should be reviewed by an administrative body. In China, this is the Patent Office (SIPO), in Germany, the Federal Patent Court (Bundespatentgericht). In Japan, the courts got somewhat fed up with the system as it was: First, the Patent Office was rather slow in dealing with invalidation requests, drawing out infringement proceedings. In addition, the standards of the Patent Office for upholding patents were deemed too lenient.⁶ The courts wanted to "raise the bar", before this became a fashionable motto of patent offices. The "Kilby" decision broke new ground in allowing the courts to refuse the enforcement of a patent

1 Supreme Court, 11 April 2000, 35 IIC 91 [2004] – "Kilby III" with comment by *Môri* and *Heath*.

2 This was not clearly stated in the Japanese Patent Act, but so held by a decision of the Imperial Supreme Court, 23 April 1917, 23 Minroku 654. The decision at least gave the courts discretion whether to stay infringement proceedings and thereby overturned the previous Imperial Supreme Court decision of 15 November 1904, 10 Minroku 1679, that had regarded a stay in proceedings as mandatory.

3 The German Federal Patent Court has exclusive jurisdiction in regard of the invalidation of German patents and extended European patents that are no longer subject to opposition/appeal procedures.

4 GANEA / PATTLOCH, *Intellectual Property Law in China* (2005) 305.

5 Korean Supreme Court, 28 December 2004, German translation in *GRUR Int.* 2006, 617.

6 For details, see C. HEATH, *Patent Enforcement in Japan*, in: Heath/Petit (eds.), *Patent Enforcement World-Wide*, IIC Series vol. 25 (2005) 350.

where this would create an abuse, and in one of these cases the patent was deemed “obviously invalid”. The decision triggered three developments: First, the courts in patent infringement procedures came to hold about half of all litigated patents invalid;⁷ second, the Patent Office put in significant efforts to speed up invalidation trials and raise the standards for maintaining patents; and, third, the legislature enshrined the power of the courts to hold patents invalid in Sec. 104^{ter} Patent Act that now reads:

“(1) In a litigation that concerns a patent or an exclusive license thereof, the patentee or the exclusive licensee is barred from exercising the patent right if the latter is likely to be invalidated in a nullity action.

(2) If an estoppel or an attack under the preceding subsection has been raised in order to cause unreasonable delay, the court is entitled to disregard it.”

2. Under the current law, the courts (according to Sec. 6 Code of Civil Procedure, those of Tokyo and Osaka) can hold the patent invalid *inter partes*, and the Patent Office can invalidate the patent *erga omnes*. Invalidation and infringement proceedings may be conducted concurrently, subsequent to each other or in isolation, creating all sorts of legal problems. As if this was not enough, the patentee can request *ex parte* limitation proceedings before the Patent Office, often in response to the court holding the patent invalid *inter partes*. Different from the UK, for example, the courts in Japan still cannot declare the patent invalid, and they cannot limit the scope of the patent by request of the patentee. In limitation proceedings, the patentee has the advantage of dealing with the Patent Office in the absence of any third party, but is significantly inconvenienced by the fact that the Patent Office in such proceedings does not accept auxiliary requests. The number of five limitation proceedings in the case at issue is less surprising when seen in this light – after all, five auxiliary requests in *ex parte* appeal or limitation proceedings before the European Patent Office (EPO) are nothing out of the ordinary. Greater procedural flexibility in this respect would benefit all those involved in concurrent infringement procedures: the patentee, the defendant and the court. But even if auxiliary requests were allowed, patentees would perhaps be reluctant to use them, if the experience with Japanese parties before the EPO is anything to go by: After all, such requests could be seen as an acknowledgement that the main request will not succeed.

3. At the fifth attempt, the patentee had arrived at a limitation the Patent Office found acceptable. As a result (Sec. 128 Patent Act, corresponding to Art. 68 EPC), the patented scope had changed *ex tunc*, that is, retroactively from the date of grant. This in turn had the consequence that the appeal court’s decision was based on a patent deemed never to have existed, and the version that was deemed to have existed had not been

⁷ In the first years following the *Kilby* decision, more than half of the patents in litigation were deemed invalid (information supplied to the author by Judge Mimura, IP High Court, Tokyo).

before the court. Thus, facts had occurred after the appeal decision was rendered that made the latter look incorrect. This as such is nothing out of the ordinary. Civil courts of EPO Member States may also be faced with the situation that in the course of infringement proceedings, the patent is limited in scope or outright invalidated by the Boards of Appeal, always with retroactive effect (Art. 68 EPC). The consequences thereof have not been harmonised, though (see below, 4).

4. The Supreme Court dealt at some length with Sec. 338 Code of Civil Procedure that the appellant put forward in order to justify its appeal. This is somewhat surprising: While Sec. 338(1)(viii) CCP deals indeed with a constellation where a court decision is based on an administrative act that is subsequently amended, the provision quite clearly applies to a reopening of proceedings after a decision has become final and conclusive, in other words has become *res iudicata*.⁸ This is not the case here: The decision was still at the stage of final appeal. While grounds of final appeal are limited according to Sec. 312 CCP, there is no reason to invoke Sec. 338 CCP here. It would have been necessary to do so only once the appeal court's decision had become final and before the patentee had succeeded in his efforts to limit the patent. For that situation, however, the court's reasoning is very relevant.

Sec. 338 CCP was invoked in two recent Japanese decisions⁹ that dealt with the reverse constellation: After a successful conclusion of an infringement action, the defendant managed to get the patent invalidated by the Patent Office. Here, the courts reopened proceedings and annulled the previous decision finding for infringement. In addition, the defendant was awarded damages for the patentee's wrongful exercise of his right. The courts in these two decisions did not discuss the relationship between Sec. 104^{ter}(2) Patent Act and Sec. 338 CCP, and the Supreme Court's findings for the relationship between these two provisions is thus most interesting and may indeed limit Sec. 338 CCP to cases where the relevant arguments could not be raised during the infringement procedures. The case at issue was one of such situations: The plaintiff could have been quicker in getting its patent right into shape. The reverse case – subsequent revocation – is perhaps less easy to judge: Would the defendant be barred from a retrial because the relevant prior art was part of the search report, was a prior use by the defendant or could have been found easily? In other words, what efforts do patentee and defendant have to make in order to avoid the trap of Sec. 104^{ter} (2) Patent Act? The Supreme Court does not fail to see that limitation requests by the patentee are often a reaction to certain findings by the court, and this may not be different for the defendant

8 Sec. 338 CCP: “A final decision that has become *res iudicata* can be reopened in one of the following cases unless the party could have raised the ground for the reopening of proceedings in an appeal or a final appeal, or did not appeal the decision despite the knowledge of such ground.”

9 Osaka High Court, decisions of 15 October 2004 and 29 March 2005, 39 IIC 228 [2008] – “Fire Door”; Tokyo High Court, 31 January 2005, 39 IIC 359 [2008] – “Platform Planks”.

when looking for prior art. As of now, the decision of the Supreme Court seems to qualify Sec. 338 CCP in that a retrial can only be requested if best efforts have been made to raise all relevant arguments at the previous stage of procedure.¹⁰

5. Judge Izumi's opinion reveals the quandaries of a split system of infringement/invalidity that has moved half way towards giving the courts jurisdiction over the outright invalidation of patents. According to him, Sec. 338 should not be applicable at all (which in this case it indeed should not for the reasons pointed out above) because the infringement courts after all have jurisdiction to decide on the (*inter partes*) validity of the patent. This is not far from an *obiter dictum* of a recent German decision on a retrial due to the invalidation of a patent subsequent to infringement procedures:¹¹ The corresponding provision of Sec. 580 No. 6 CCP should only apply because the defendant was barred from arguing invalidity in court, and the court was strictly bound by the Patent Office's decision to grant a patent until a revocation of the same. To the extent that such estoppel of invalidity could be raised in court, a retrial should not be available, because in such case one could not speak of facts that had changed only after the decision had become final. In the case at issue, Judge Izumi's reasoning raises practical difficulties, however: According to Judge Izumi, the patentee should present the court with a limited version of the patent that could become the subject of limitation proceed-

10 On a comparative note, it is worthwhile to mention that the possibility of re-opening infringement proceedings after a final decision is not self-evident: It has been allowed in Japan (see above, note 9), in Korea (see above, note 5) and in Germany: Düsseldorf Appeal Court, decision of 11 May 2006, 39 IIC 355 [2008] – "Request for Retrial III" and Düsseldorf Appeal Court, decision of 9 August 2007, 39 IIC 357 [2008] – "Tighthead Drum II". In China (Sec. 47(2) Patent Act, Italy (Sec. 77 IP Code) and France (Supreme Court decision, 12 June 2007, 39 IIC 354 [2008] – "False Ceiling") the alleged (and convicted) infringer cannot claim back what has already been performed prior to the patent being invalidated, yet is not obliged to pay any damages outstanding at this point. In the UK, the subsequent invalidation of a patent has no effect whatsoever on obligations to pay outstanding damages: *Unilin Beheer v. Berry Floor*, English High Court, 25 April 2007, [2007] EWCA Civ. 364. For an overview, see C. HEATH, *Wrongful Patent Enforcement*, 39 IIC 307, 316.

11 Düsseldorf Appeal Court, 11 May 2006 (above note 10): "The claim for setting aside a previous final decision allows a scrutiny of decisions whose foundations have been undermined to a degree that is for everyone to see and unacceptable for the general perception of justice.... In principle, this is the case where a judicial decision on which a decision is based, has been subsequently set aside. This must also apply to a decision of the administration (the patent grant as an administrative act) whose correctness the deciding court cannot verify, as it is strictly bound thereby (Düsseldorf District Court, GRUR 1987, 628 – Request for Retrial I). The analogy is justified, since the setting aside of a binding administrative act, similar to the setting aside of a final decision, results in an undermining of the basics of the decision to be set aside. Due to the binding effect of the patent grant as an administrative act, the infringement court may not disregard such act of grant although it may take the view that the patent is invalid. Once the patent that the infringement court had to regard as valid is subsequently revoked, the basis of the previous decision on finding for patent infringement has been undermined to the same extent as a decision that was based on a previous judicial decision...."

ings, and the court should thereupon rule on the question if such limitation could overcome the invalidity estoppel. In essence, this means that the court has to base its decision on a virtual version of the patent – not very practical given the fact that the court has no power to order the Patent Office to amend the patent, or to order the patentee to request such an amendment, let alone the possibility that such request may be refused by the Patent Office.

5. Finally, the above decision shows that Patent Office procedures for limitation should be dealt with more flexibly. Just as in *ex parte* appeal or limitation proceedings before the EPO, the examiners or judges should accept auxiliary requests and try to arrive at a solution that allows the patentee to maintain the patent in a form corresponding to the contribution to the state of the art, rather than only allow one request per procedure and indicate after some months or years whether this would be deemed acceptable or not.

6. From a comparative perspective, the decision is most interesting in light of the limitation proceedings newly introduced under the EPC 2000, Arts. 105a – 105c EPC. These allow the patentee to centrally limit its European patent in proceedings before the EPO with immediate effect for all Member States. This *ex parte* procedure is available regardless of any limitations that national Member States may have imposed on the possibility of limiting the patent before, during or after infringement procedures. A patentee in Europe could therefore do the same as in the case at issue: Limit the patent at the appeal stage, and then ask the court to rule on the patent in its newly amended form. It is not yet clear how national courts in the Member States will react to this possibility, but introducing some sort of preclusion of late-filed amendments may become necessary in order to avoid a dragging-out of proceedings. Otherwise, limitation procedures under the EPC could become a strategic torpedo in the hands of the patentee that may turn a successful estoppel of invalidity in first instance into a pyrrhic victory.

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