

# Washington Law Review

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Volume 70  
Number 3 *Symposium on Immigration Policy*

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7-1-1995

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### Recommended Citation

Scott K. Dinwiddie, Notes and Comments, *A Shifting Barrier? Difficulties Obtaining Patent Infringement Damages in Japan*, 70 Wash. L. Rev. 833 (1995).

Available at: <https://digitalcommons.law.uw.edu/wlr/vol70/iss3/10>

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## A SHIFTING BARRIER? DIFFICULTIES OBTAINING PATENT INFRINGEMENT DAMAGES IN JAPAN

Scott K. Dinwiddie

*Abstract:* American economic interests previously have criticized the Japanese patent system as a trade barrier. Recent agreements between the United States and Japan should help reduce the difficulties Americans have had obtaining patents in Japan. However, Americans who acquire Japanese patents are likely to be disappointed and discouraged by the formal protection afforded their new property. The patent enforcement system in Japan provides limited judicial remedies. Equitable relief is difficult to enforce. The full value of monetary damages is extremely difficult to prove, and the possibility for equitable recovery of damages in excess of those proved does not exist. The cost of undertaking litigation and the unavailability of attorneys' fees provide further disincentives to seeking judicial enforcement of patent rights. Thus, although Americans may find it easier to obtain a patent in Japan, they are likely to become frustrated with the enforcement system, leading to increased complaints about the Japanese patent system from U.S. commercial interests.

For years, U.S. manufacturers have complained that administrative barriers and delays in the Japanese patent system have allowed Japanese manufacturers to profit by exploiting foreign technology.<sup>1</sup> To date, much effort has focused on the access problem—the difficulties Americans<sup>2</sup> face in trying to obtain a Japanese patent.<sup>3</sup> Lengthy delays have been a particular problem, evidenced by the nearly thirty years it took Texas Instruments to obtain its Japanese semi-conductor patent.<sup>4</sup> Recently,

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1. See, e.g., U.S. General Accounting Office, *Intellectual Property Rights: U.S. Companies Patent Experiences in Japan* (1993), reprinted in *Japanese Intellectual Property: The Japanese Patent System and Strategies for Competitiveness* 165 (Japan Info. Access Project ed., 1993) [hereinafter *GAO Report*]; Charles R.B. Macedo, Note: *First-To-File: Is American Adoption of the International Standard in Patent Law Worth the Price?*, 1988 Colum. Bus. L. Rev. 543, 583 (noting that “in the television and computer areas . . . foreign companies, especially Japanese ones, have grabbed large market shares from Americans by free riding on American technology”); *The Effect of the Japanese Patent System on American Business: Hearings Before the Subcomm. on Foreign Commerce and Tourism of the Senate Comm. on Commerce, Science, and Transp.*, 100th Cong., 2d Sess. (June 24, 1988) (recording witnesses' accusations that Japanese patent law in practice presents a non-tariff barrier).

2. Although the term “Americans” can refer to residents of both American continents, it is used here to refer only to citizens of the United States.

3. See Nancy J. Linck & John E. McGarry, *Patent Procurement and Enforcement in Japan—A Trade Barrier*, 27 Geo. Wash. J. Int'l L. & Econ. 411 (1993–1994) (summarizing the present situation and noting that the currently proposed reforms will do little to solve the enforcement problems).

however, there have been signs that improved access to the Japanese patent system for U.S. interests is on the horizon. Two recent agreements between the United States and Japan concerning patent harmonization should help ease the application process for Americans.<sup>5</sup>

Unfortunately, an improved application process is unlikely to be a panacea for Americans interested in protecting technology in Japan. Patent application reforms, though helpful, address only one side of patent protection: the granting of patent rights. The other side of patent protection, the remedies available for infringement of patent rights, remains largely unaltered by the recent agreements.<sup>6</sup>

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4. Texas Instruments (TI) applied for a Japanese patent for the integrated circuit on February 6, 1960. The Japanese Patent Office finally issued the relevant patent in October 1989. Thomas C. Hayes, *Japan Grip Still Seen on Patents*, N.Y. Times, Nov. 24, 1989, at D1. The comparable U.S. patent was granted in 1964. *Japan Finally Gives U.S. Firm Chip Patent*, S.F. Chron., Nov. 22, 1989, at A1.

Initial predictions were that TI's Japanese patent would be worth hundreds of millions of dollars in royalty revenue until expiration in November 2001. *Japan Finally Gives U.S. Firm Chip Patent*, S.F. Chron., Nov. 22, 1989, at A1. However, a recent decision by the Tokyo High Court may severely curtail the value of TI's semi-conductor patent. In its decision the Tokyo High Court ruled that Fujitsu, which manufactured computers using integrated circuits, did not violate TI's Japanese patent because current technology does not resemble that covered by the patent. See Masato Ishizawa, *Ruling Against TI Patent May Embolden Firms*, Nikkei Weekly, Sept. 5, 1994, at 1. The case is currently on appeal. *Chip Maker Appeals Loss in Fujitsu Patent Lawsuit*, Wall St. J., Sept. 14, 1994, at B7. For additional discussion of the TI patent, see John C. Lindgren & Craig J. Yudell, *Protecting American Intellectual Property in Japan*, 10 Santa Clara Computer & High Tech. L.J. 1, 7-9 (1994).

Another example of a long delay is the almost 12 years it took Allied Signal to obtain a Japanese patent on an amorphous metal product. *U.S.-Japan Structural Impediments Initiative: Hearings Before the Subcomm. on Int'l Trade of the Senate Comm. on Finance*, 101st Cong., 2d Sess. (Mar. 5, 1990).

5. The first agreement, signed on January 20, 1994, ensures that "[b]y July 1, 1995, the Japanese Patent Office (JPO) will permit foreign nationals to file patent applications in the English language, with a translation into Japanese to follow within two months." *Japan-United States: Mutual Understanding on Patents*, 33 I.L.M. 313 (1994). Because Japan employs a first-to-file system, rather than the U.S. first-to-invent system, the ability to file initially in English can be extremely important in trying to secure patent rights. See Tokkyohō [Patent Law (Pat. L.)] § 39, translated in *Japanese Laws Relating to Industrial Property* (Japanese Patent Office trans., 1992).

The second agreement, signed on August 16, 1994, is designed to speed the time in which a Japanese patent is issued. This agreement forced Japan to end its practice by April 1, 1995 of allowing third parties to oppose a competitor's patent before it is granted and will ensure introduction by January 1996 of an accelerated Japanese patent examination procedure allowing applicants to obtain a decision within 36 months if requested. *Intellectual Property: U.S., Japan Sign Agreement to Speed Up Patent Process*, BNA Int'l Trade Daily, Aug. 17, 1994, available in LEXIS, Nexis Library, U.S. News File.

6. See Linck & McGarry, *supra* note 3, at 431.

New American entrants to Japan's patent system are likely to find the available legal remedies less than satisfactory.<sup>7</sup> Legal enforcement in a patent infringement action in Japan generally is harder to obtain than in the United States and usually is significantly less remunerative. Some of these differences are due to variations in the patent laws of the two countries, and others result from differences between a common law and a civil law system.<sup>8</sup> The result, however, is that U.S. owners of Japanese patents may be unprepared to adequately protect and leverage their newly acquired property in the Japanese marketplace. Therefore, patent enforcement is likely to receive increasing scrutiny and become a focus of trade friction between the United States and Japan.

This Comment discusses patent enforcement remedies available in Japan and analyzes how they generally are weaker than those available in the United States. Part I briefly explains the historical reasons why Japanese judges possess less enforcement authority than their U.S. counterparts and why this result leads to a plaintiff's heavy reliance on monetary damages as a form of relief for patent infringement. Part I concludes with a discussion of why the large role of conciliation in Japan does not decrease the importance of monetary damages in the enforcement system. Part II examines some of the major procedural barriers in Japan that make it extremely difficult for a plaintiff to prove the amount of damages caused by an infringer's actions. Part III discusses particular obstacles to proving causation of damages and the likelihood that full compensation for patent infringement will be unavailable in Japan. Part IV describes additional barriers to seeking judicial resolution of infringement in Japan. Finally, part V considers patent protection in a system with limited judicial remedies.

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7. The fact that Americans are likely to find the Japanese enforcement system unsatisfactory does not mean the system does not work. Rather, the system works in a way that is likely to disadvantage parties who rely on judicial intervention to enforce their patent rights. The fact that the Japanese patent enforcement system is alien to Americans is likely to lead to increased criticism from American economic interests, even if the system is effective from the Japanese perspective. For an argument that essentially concludes "when in Rome do as the Romans do" to effectively protect intellectual property rights, see Lindgren & Yudell, *supra* note 4, at 31-32. For further discussion concerning extra-judicial enforcement methods in Japan, see *infra* part V.

8. Some of these differences are due also to the unique nature of Japan's own civil law system. See 4 *Law and the Legal Process in Japan: Materials for an Introductory Course on Japanese Law* 110 (John Owen Haley et al. eds., 1994) [hereinafter Haley et al.] (unpublished manuscript, on file with the Asian Law Program, University of Washington) ("The remedial and enforcement powers of the courts in Japan are considerably weaker than those in common law and most other civil law jurisdictions.") (emphasis added).

## I. A BRIEF OVERVIEW OF LEGAL ENFORCEMENT IN JAPAN

## A. Remedies and the Lack of Equity Powers in Japan

Jurisprudence in the United States commonly is divided into two branches: substantive rights and judicial remedies.<sup>9</sup> Remedies are the relief provided for the violation of a given substantive right.<sup>10</sup> Historically the Anglo-American legal system divided judicial remedies into two types: legal and equitable.<sup>11</sup> Legal remedies were available in the courts of law.<sup>12</sup> Equitable remedies were available in the courts of equity, which possessed the power to create remedies other than those expressly provided for in the courts of law.<sup>13</sup> These two forms of action were later combined into one in the United States.<sup>14</sup> Thus, today most U.S. courts can apply statutory remedies and also may step outside a given statute to exercise equitable powers.

Having developed out of a distinct legal tradition,<sup>15</sup> Japanese courts are invested with powers different from those commonly found in the Anglo-American system. Adopting a system based on the civil law traditions of France and Germany, Japan provided its courts with legal, but not equitable, powers.<sup>16</sup> Thus, modern Japanese courts possess little authority to fashion relief not expressly provided for by statute.<sup>17</sup> Related to this lack of equity power is a nearly complete lack of contempt power.<sup>18</sup> Without the power of contempt, Japanese judges have little

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9. See Dan B. Dobbs, *Law of Remedies: Damages-Equity-Restitution* § 1.1 (2d ed. 1993). Cf. U.C.C. § 1-201(34) (1990) ("'Remedy' means any remedial right to which an aggrieved party is entitled with or without resort to a tribunal.").

10. Dobbs, *supra* note 9, § 1.1.

11. For a general history of equitable remedies in the common law system, see *id.* §§ 2.1-2.3.

12. *Id.* § 2.1.

13. *Id.*

14. Most states combined these two forms of action into one (the civil action) during procedural reforms adopted in the mid-nineteenth century. Fleming James, Jr. et al., *Civil Procedure* § 1.7 (4th ed. 1992). The Federal Rules of Civil Procedure contain similar provisions for merger. Dobbs, *supra* note 9, § 2.6(1), at 101 & n.2; Fed. R. Civ. P. 2.

15. See Yosiyuki Noda, *Introduction to Japanese Law* 5-6 (Anthony H. Angelo ed. & trans., 1976).

16. See *id.* at 49-54.

17. *Id.*

18. The weak nature of Japanese contempt powers is unique even among civil law countries. See John Owen Haley, *Authority Without Power: Law and the Japanese Paradox* 118 (1991).

authority to enforce compliance with court orders.<sup>19</sup> Although statutory fines exist in certain circumstances for failure to comply with a judicial order,<sup>20</sup> they are generally minimal,<sup>21</sup> infrequently used,<sup>22</sup> and hardly comparable to the wide spectrum of sanctioning measures available to a U.S. judge under the contempt power.<sup>23</sup> Without these equitable or contempt powers, a Japanese judge possesses considerably less authority than his or her U.S. counterpart to provide a remedy for the breach of a legal right.

This difference in enforcement authority is particularly notable in a Japanese judge's limited ability to grant prospective or on-going relief.<sup>24</sup> Once a final judgment has been rendered, Japanese judges do not retain jurisdiction over a case.<sup>25</sup> Without the ability to monitor compliance over time, the Japanese judiciary possesses only limited means to ensure compliance with on-going relief, severely curtailing the effectiveness of one standard infringement remedy: the permanent injunction.<sup>26</sup> This limited effectiveness acts as a major limitation on the Japanese patent

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19. *Id.*

20. For example, fines exist for failure to comply with an order for discovery, Code of Civil Procedure [C. Civ. P.] art. 318 (Japan), translated in 2 *EHS Law Bulletin Series* (Eibun-Horei-Sha [Codes Translation Institute] ed., 1992), or for making a false statement under oath. *Id.* art. 269.

21. The current maximum fine for failure to comply with a discovery request or for making a false statement under oath is approximately \$1,000 (100,000 yen). C. Civ. P. arts. 318, 269 (Japan) (discovery and false statement). The comparable sanction in U.S. federal court for a discovery violation is ultimately contempt of court. Fed. R. Civ. P. 37(b). An individual in contempt of a U.S. court's authority may be punished by a fine or imprisonment, at the court's discretion. 18 U.S.C. § 401 (1988). For additional discussion on the limited nature of discovery in Japan, see *infra* text accompanying notes 37-47.

22. Kōji Harada, *Civil Discovery Under Japanese Law*, 16 *Law in Japan* 21, 38 (1983) (stating that "in Japan, to the extent they exist at all, sanctions [to secure discovery] are weak and seldom used").

23. 18 U.S.C. § 401 (1988).

24. Haley et al., *supra* note 8, at 110.

25. *Id.*

26. In addition to the enforcement problem, or perhaps due to it, permanent injunctions rarely are granted for patent infringement in Japan. See Samson Helfgott, *Effectively Working with the Japanese Patent System*, in *Japanese Intellectual Property: The Japanese Patent System and Strategies for Competitiveness*, 67, 69 (Japan Info. Access Project ed., 1993). In addition, permanent injunctions are not effected until all appeals have been resolved. Mark F. Wachter, *Patent Enforcement in Japan: An American Perspective for Success*, 19 *AIPLA Q.J.* 59, 67-68 (1991). This delay can be significant because the average length of time to conclude an infringement action in Japan is three to nine years. *GAO Report*, *supra* note 1, at 64. In the United States, the comparable length of time is two to three years. *Id.*

enforcement system.<sup>27</sup> In an area that relies on two types of remedies—monetary damages and injunction<sup>28</sup>—the difficulty of obtaining a permanent injunction necessarily forces greater reliance on monetary damages as a form of judicial relief for infringement.<sup>29</sup> Thus, the possibility of obtaining monetary damages takes on increased importance for a plaintiff seeking a judicial remedy for patent infringement in Japan.

### B. *Caveat: The Role of Conciliation*

The fact that Japanese courts lack the power to effectively monitor ongoing transactions does not mean that Japanese courts are ineffective at resolving conflicts. While the U.S. model of conflict resolution frequently relies on pursuing a legal claim to the point of final judgment, the Japanese model depends largely on the role of “conciliation” and settlement.<sup>30</sup> Japan’s heavy reliance on conciliation may be viewed as a

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27. However, the Japanese judiciary more readily issues preliminary injunctions (*kari-shobun*), making the preliminary injunction a useful and popular form of action in Japan. See Haley, *supra* note 18, at 118–19 (providing statistics on the number of civil actions in Japan for 1975–1985). In patent infringement cases preliminary injunctions have been difficult to obtain, and thus generally have not been useful, particularly for U.S. firms. See GAO Report, *supra* note 1, at 65–66; Helfgott, *supra* note 26, at 69 (stating that “[t]here is almost no opportunity to obtain a preliminary injunction [in Japan]”); Wachter, *supra* note 26, at 81. However, if a patentee’s case is strong, can be presented clearly, and involves only settled issues of law, a preliminary injunction can be obtained in Japan. *Id.* at 68 & n.28, 81–84 (discussing preliminary injunction in Japan and noting Monsanto’s ability to obtain a preliminary injunction against Stauffer in a “record” nine months).

28. See 5 Donald S. Chisum, *Patents: A Treatise on the Law of Patentability, Validity and Infringement* § 20.01 (1994). Broadly speaking, in the patent area monetary damages compensate for past harm, while injunction protects against future harm. *Id.*

29. See Lindgren & Yudell, *supra* note 4, at 29 (stating that “[t]he primary remedy available to a prevailing plaintiff [in a patent infringement action in Japan] is damages”). However, for reasons discussed below, damages are awarded infrequently. See *infra* part I.B.; see also James A. Forstner, *Patent Litigation in Japan, China and Korea*, in *Global Intellectual Property Series 1993: Successful Multi-Country Patent Litigation Strategies* 13, 14 (PLI Patents, Copyrights, Trademarks, and Literary Prop. Course Handbook Series No. 366, 1993).

30. Conciliation has been defined as “a settlement of a dispute by means of compromise reached through the intervention of a third party that promotes negotiation and agreement between the disputing parties.” Takayuki Yamashita, *Conciliation*, in 7 *Doing Business in Japan* pt. 14, § 3.01[1] (Zentaro Kitagawa ed., 1994). Conciliation includes court mediation or “in-court compromise” (*soshōjo no wakai*), where the third party is the court, as well as “conciliation” (*chōtei*), where the third party is a conciliation committee comprising a judge and two lay members. Tetsuya Obuchi, *Role of the Court in the Process of Informal Dispute Resolution in Japan: Traditional and Modern Aspects, with Special Emphasis on In-Court Compromise*, 20 *Law in Japan* 74, 75 (1987). In-court compromise and conciliation have res judicata effect if properly recorded. *Id.* Although both family and civil conciliation exist in Japan, this Comment is concerned only with civil conciliation. Although Japanese conciliation might sound similar to a pre-trial conference under

judicial attempt to enhance authority in a system providing limited enforcement powers.<sup>31</sup> Whatever the ultimate reason for the extensive use of conciliation, few cases in Japan actually result in a final judgment,<sup>32</sup> particularly in the patent infringement area.<sup>33</sup>

Although damages awards in Japan may be few in number, they determine the price an infringer must pay. The amount of damages ultimately available if a case is pursued to final judgment should set the highest monetary value (or range of values) recoverable for infringement. Therefore, court-mediated conciliation and private settlements probably result in settlements that reflect the award ultimately available through judgment, discounted by the cost of time and litigation necessary to reach an ultimate judgment and by a risk factor that accounts for the possibility

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Fed. R. Civ. P. 16, the Japanese court's role is typically much more pervasive and influential. *See id.*; Dan Fenno Henderson, *Conciliation and Japanese Law: Tokugawa and Modern* (1965) (describing the process as "didactic conciliation").

31. *See* Haley, *supra* note 18, at 193 (noting that when power is separated from authority and the state lacks adequate means of coercion, the state's ability to control individuals depends on its ability to "persuade, bargain, or cajole in order to induce consent"); *see also* Obuchi, *supra* note 30, at 87 (noting that enforcement usually is easier if a dispute is resolved through settlement rather than judgment).

32. In 1980, of 205,503 civil suits filed 147,764 (72%) ended in court conciliation. Yahusei Taniguchi & Yoshikazu Sagami, *Civil Litigation*, in 7 *Doing Business in Japan* pt. 14, § 10.01[2] (Zentaro Kitagawa ed., 1994). Note however that an extremely high percentage of cases in U.S. courts also settle. Judith Resnik, *Managerial Judges*, 96 *Harv. L. Rev.* 374, 405 (1982) (noting that 85–90% of all civil cases filed in U.S. federal district courts settle before going to trial). However, lawsuits are filed with much greater frequency in the United States than in Japan, resulting in a greater absolute number of decisions. *See infra* note 33.

Debate over the reason for Japanese individuals' apparent aversion to litigation is long and complex. For arguments stressing the cultural dislike of confrontation and preference for harmony, *see* Ohta & Hozumi, *Compromise in the Course of Litigation*, 6 *Law in Japan* 97 (1973); Lindgren & Yudell, *supra* note 4, at 24–25. For contrary views suggesting that Japanese settle their disputes not out of a desire to preserve cultural harmony but for other reasons, *see* John O. Haley, *The Myth of the Reluctant Litigant*, 4 *J. Japanese Stud.* 359 (1978) (suggesting that the availability of informal dispute resolution mechanisms and structural factors inhibiting the courts' ability to provide adequate relief may account for the low litigation rates in Japan); J. Mark Ramseyer & Minoru Nakazato, *The Rational Litigant: Settlement Amounts and Verdict Rates in Japan*, 18 *J. Legal Stud.* 267 (1989) (suggesting that a high percentage of Japanese disputes may be settled because it may be relatively easy to accurately predict how courts will resolve those disputes).

33. *See* Lindgren & Yudell, *supra* note 4, at 25 n.75 (noting that "[o]f the 369 patent infringement cases filed in the District Court in 1990, 60 [16%] were withdrawn, 125 [34%] reached judgment, and 157 [43%] were settled" (citing *Japanese Patent Practice: Prosecution/Litigation*, AIPLA Proc. K.18 (June 1992))). In the United States, the volume of patent lawsuits is greater, averaging 1253 annually from 1988 to 1992 and rising to 1474 in 1992. *AIG Offers New Patent-Infringement Liability Insurance*, *J. Proprietary Rights*, July 1994, at 30.



that a case, even if prosecuted to judgment, might be lost.<sup>34</sup> Because Japanese judges strongly influence settlement terms and are well aware of the value of a potential damages award, the value of a settlement reached through formal court-mediated conciliation will closely reflect the damages award that would be granted by the court.<sup>35</sup> In addition, to the extent that private parties are aware of the size of monetary awards,<sup>36</sup> any purely private settlement that occurs also should reflect this value.

Thus, the fact that conciliation plays a large role in Japanese conflict resolution does not reduce the importance of damages awards in setting the basic value of infringement. Although only a small number of patent infringement cases result in a final judgment and the recovery of a damages award, the awards that exist will form a basis for determining the value of patent infringement. Ultimately, the value of cases settled through the formal conciliation process as well as those settled through private dispute resolution are likely to reflect closely the value available in a damages award.

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34. See Haley, *supra* note 18, at 117. One might hypothesize that patent holders in Japan should receive less from infringement than patent holders in the United States merely because conflict resolution tends to occur sooner in the conflict process in Japan and therefore should be discounted more steeply. However, this simple model is complicated because litigation costs in the two countries may differ in absolute terms and also over time. Costs incurred early in the litigation process are probably higher in Japan than in the United States, and costs incurred later in the process may differ as well. See Forstner, *supra* note 29, at 14.

35. See Wachter, *supra* note 26, at 80–81. In an effort to promote settlement, the judiciary may apply pressure to settle at below-market royalty rates. Forstner, *supra* note 29, at 14. The judiciary exclusively determines the amount of damages because the jury system has not been used in any case in Japan since 1943. Noda, *supra* note 15, at 137–38.

36. Indeed, assuming a rational litigant model, the more accurate and reliable the information available regarding the ultimate judgment value of a dispute, the more likely the disputants will settle early in the process. Thus, it should not be surprising that settlement occurs more frequently and earlier in Japan than in the United States. See Ramseyer & Nakazato, *supra* note 32. Since 1868, Japan has had a national system of law, rather than the federalist system existing in the United States, and has not used a jury system in civil litigation. Upon completion of legal training, judges enter the judiciary, where they typically spend their entire careers. Throughout their careers, judges are rotated throughout the country and attend various national training sessions. J. Mark Ramseyer & Frances McCall Rosenbluth, *Japan's Political Marketplace* (1993). The result is a system which should produce similar damages awards in similar situations nationwide. On the other hand, the United States has a federalist system and an appointed judiciary consisting of individuals from varying areas of legal practice, and relies heavily on jury decisions. This system can be expected to produce inconsistent damages awards in different locations, even if the facts surrounding a legal dispute are identical. For an empirical study evaluating results in the Japanese legal system, see Ramseyer & Nakazato, *supra* note 32.

## II. DIFFICULTIES OF PROOF IN JAPAN

Procedural restrictions on gathering and presenting evidence create difficulties for a plaintiff trying to prove damages in Japan. The discovery rules make it difficult for a plaintiff to gather evidence from adversarial parties. In addition, the role of expert witnesses is substantially limited in the Japanese system. These barriers to proof are discussed in more detail below.

### A. *Limited Discovery Makes Proof of Damages Difficult in Japan*

The lack of pretrial discovery and limited discovery during trial make proof of damages extremely difficult in Japan. Standard legal practice requires a plaintiff to satisfactorily prove the amount of damages that he or she is seeking to recover. In Japan, a plaintiff must specify the exact amount of the damages sought at the time a complaint is filed.<sup>37</sup> The plaintiff may amend the amount of damages after filing the complaint, but the basis for the original estimate must be explained and evidence sufficient to prove the estimate must be prepared and filed at the outset.<sup>38</sup> Obtaining this initial evidence is likely to be difficult. Damage in a patent infringement case often involves the plaintiff's loss of profits as the result of sales by the infringer. Therefore, the plaintiff may need to state the quantity of sales made by the defendant,<sup>39</sup> which can be used to estimate the value of profits lost by the plaintiff. The infringer's books and records usually will contain the best evidence for proving the volume of the infringer's sales. Unfortunately for the plaintiff, these records most likely will not be discoverable in Japan because plaintiffs generally are not allowed to gather evidence from the defendant at the pretrial stage.<sup>40</sup> Thus, the plaintiff will have to look elsewhere for satisfactory evidence to prove the amount of damages. This limitation makes a damages award difficult to pursue.

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37. Forstner, *supra* note 29, at 16; Eugene Lee & Yutaka Kubota, *Remedies for Breach of License Agreements*, in *Patent and Know-How Licensing in Japan and the United States* 225, 254 (Teruo Doi & Warren L. Shattuck eds., 1977) (citing H. Kaneko, *Minji Soshōhō Taikai* (System of the Code of Civil Procedure) 170 (1956)). In the United States, on the other hand, a plaintiff need only plead "an accounting for damages" without providing an exact monetary amount. See Fed. R. Civ. P. 8 & Form 16.

38. Lee & Kubota, *supra* note 37, at 254.

39. *Id.* at 254 n.160.

40. Harada, *supra* note 22, at 34.

Assuming initial evidence can be gathered and the suit goes forward, the amount of damages must be proved during the course of the trial to the satisfaction of the court. Proof of damages is integral to proof of the entire case in Japan, where the court cannot bifurcate the trial, render judgment, and leave the amount of damages open for later determination by a master.<sup>41</sup> Although the Japanese trial is supposed to function as the main forum for obtaining information in a lawsuit,<sup>42</sup> in practice, discovery laws offer little practical assistance to a plaintiff trying to gather evidence to prove damages.

Japanese law provides that upon the request and showing of sufficient necessity by either party, the court may order the other party to produce documents necessary for the assessment of damages.<sup>43</sup> If the defendant does not comply with an order for the production of documents, the court may "deem the assertion of the other party relating to the document to be true."<sup>44</sup> While this presumption theoretically provides significant incentive for a party to produce documents, the reality is somewhat different. The judicial presumption may not be imposed if the court has not ordered the production of documents, and the court will not order the production of documents when the person refusing a document request has a "legitimate reason" for such refusal.<sup>45</sup> The protection of trade secrets is considered legitimate, and Japanese courts often are reluctant to order the production of a defendant's books for fear that unrelated trade secrets may be disclosed.<sup>46</sup> Furthermore, civil courts are unlikely to pursue a defendant's perjury or forgery, resulting in little assurance that

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41. Lee & Kubota, *supra* note 37, at 254 n.158. Although bifurcation of liability and damages is possible in the United States, the trend appears to be to not bifurcate. Harold E. Wurst & Anne Wang, *The Law of Patent Damages*, in *Patent Litigation 1993*, at 8 (PLI Patents, Copyrights, Trademarks, and Literary Prop. Course Handbook Series No. 376, 1993).

42. Harada, *supra* note 22, at 39.

43. Pat. L. § 105 (Japan); see also Sadanao Amemiya & Kikuo Nishimoto, *Patents and Utility Models*, in 4 *Doing Business in Japan* pt. 6, § 2.17[3][b][v] (Zentaro Kitagawa ed., 1994).

44. C. Civ. P. art. 316 (Japan). The court is limited to sanctioning a non-compliant third-party with a maximum non-penal fine of 100,000 yen (approximately \$1000). C. Civ. P. art. 318 (Japan). For discussion concerning the lack of contempt power in Japan, see *supra* notes 18-23 and accompanying text.

45. Pat. L. § 105 (Japan).

46. Lee & Kubota, *supra* note 37, at 254. If a plaintiff is unable to present records of the defendant's production costs, it may be necessary to disclose one's own production costs and sales expenses in order to prove lost profits. *Id.* at 254-55. In such a situation, some plaintiffs will prefer to withdraw the suit rather than disclose such information. *Id.*

any documents produced are actually original, true, and accurate records.<sup>47</sup>

*B. Limited Use of Expert Witnesses in Japan*

While the use of expert witnesses is central to proof of damages in the United States,<sup>48</sup> their use is more limited in Japan. Expert witnesses are used to prove technical aspects of patent infringement,<sup>49</sup> but the extent to which they have been or can be used to prove damages caused by infringement is uncertain. Yet, without the use of experts, plaintiffs often will find it difficult to adequately prove the amount of damages.

In the United States, the use of experts is crucial for a plaintiff trying to prove the amount of damages suffered as the result of infringement.<sup>50</sup> Areas in which expert opinion is widely used include interpretation of the plaintiff's own financial records, computation of incremental profit, and the rate of royalty generally charged in an industry.<sup>51</sup> Indeed, the use of experts for proving damages in the United States has become almost indispensable.<sup>52</sup>

In Japan, on the other hand, although the use of expert witnesses is allowed,<sup>53</sup> their role in helping to prove damages is not well defined.<sup>54</sup> Expert witnesses are supposed to assist the judge by providing special knowledge or giving an expert opinion.<sup>55</sup> In Japan, the judge selects the experts based on their experience and knowledge, and a party may not present the testimony of its own expert witness.<sup>56</sup> In patent infringement

47. *Id.* at 254. Abuse of discovery in patent litigation may also be common in the United States. See Keith V. Rockey, *Overview of a Patent Suit—The Decision To File*, in *Patent Litigation 1994*, at 9, 36 (PLI Patents, Copyrights, Trademarks, and Literary Prop. Course Handbook Series No. 396, 1994).

48. See Wurst & Wang, *supra* note 41, at 25 (stating that “it is difficult to contemplate presenting a damage case to a court without the assistance of an expert witness”).

49. See Wachter, *supra* note 26, at 77–78; Lindgren & Yudell, *supra* note 4, at 26.

50. See Wurst & Wang, *supra* note 41, at 25.

51. *Id.*

52. *Id.*

53. C. Civ. P. arts. 301–10 (Japan).

54. Japan's patent law makes no direct reference to the use of experts, other than to incorporate the general rules on the use of expert witnesses contained in the Code of Civil Procedure. Pat. L. § 151 (Japan). In contrast, U.S. patent law expressly provides for the use of experts to determine damages. 35 U.S.C. § 284 (1988).

55. Takaaki Hattori & Dan Fenno Henderson, *Civil Procedure in Japan* § 7.05[9] (1985).

56. Forstner, *supra* note 29, at 13 (citing C. Civ. Pro. art. 304 (Japan)).

litigation, the assistance of experts can be useful for the conduct of technical experiments.<sup>57</sup> Experts' written statements summarizing their conclusions also may be submitted to the court for consideration.<sup>58</sup> In determining technical aspects of patent infringement, such evidence may be persuasive when appropriately used.<sup>59</sup>

Whether similar forms of expert statements could be used to prove damages in Japan is unpredictable. Given the prevalent use of experts in the United States to prove damages in patent infringement suits, it is crucial to clarify this situation. An American patent holder seeking to enforce a patent in Japan should bear in mind that the testimony of one's own expert cannot be introduced in Japan, and the use of written statements may differ significantly, particularly with regard to establishing damages. Thus, this issue should be carefully explored with local Japanese counsel before pursuing an infringement action for damages.

### III. MONETARY DAMAGES IN JAPAN: DIFFICULTIES PROVING CAUSATION AND NO POSSIBILITY OF INCREASED DAMAGES

Besides the standard difficulties of proof discussed above, obtaining a damages award requires clearing additional hurdles. More significantly, establishing causation in a damages action can present severe difficulties for the patent plaintiff. Part A below provides a brief introduction to the two basic forms of infringement damages: lost profits and reasonable royalty. Part B describes the strict requirements for recovery of lost profits in Japan. Part C describes the requirements for the recovery of reasonable royalty in Japan. Finally, part D examines the lack of increased damages in Japan and the functional result of reasonable royalty capping recovery in Japan.

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57. Lindgren & Yudell, *supra* note 4, at 26.

58. *Id.* In addition, if prior to trial a retained expert fails to provide a satisfactory opinion, due to the lack of discovery there is little risk that the opinion will be obtained by the defendant. Wachter, *supra* note 26, at 78.

59. Wachter, *supra* note 26, at 77.

A. *A Brief Introduction to Lost Profits and Reasonable Royalty*

In both the United States and Japan, two types of monetary damages generally are available: lost profits and reasonable royalty.<sup>60</sup> Both remedies are designed to make the patent owner whole for the losses caused by infringement,<sup>61</sup> but each is theoretically applicable to a slightly different situation. In addition, as is discussed in more detail in parts B and C below, the evidentiary requirements also differ dramatically.

Courts award lost profits when competition by the infringer results in a decrease in the sales volume or price of the plaintiff's patented product. Under standard economic theory, the reduction in sales volume or price results in a corresponding loss of profits. Generally, lost profits provide the most complete measure of recovery, theoretically accounting for all profits the plaintiff loses as a result of the infringement.<sup>62</sup> Thus, patent holders typically prefer lost profits when available.<sup>63</sup>

On the other hand, reasonable royalty is in essence a best estimate adopted by the court, usually awarded when a plaintiff has failed for one reason or another to prove lost profits.<sup>64</sup> Often a patent holder will choose to exploit a patent through licensing rather than through direct production of the patented product. In this case, an amount equal to the fee that the plaintiff would have charged the defendant to work the patent

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60. A third measure of damages, established royalty, also may be recovered in the United States. See Chisum, *supra* note 28, § 20.03[2] (defining established royalty as "the royalty rate established by prior actual licenses for acts comparable to those engaged in by the infringer without authority"). While in certain circumstances it may be proper to consider established royalty as a distinct category of damages award, for the purposes of this Comment established royalty will be incorporated into the reasonable royalty concept.

61. Chisum, *supra* note 28, § 20.03, at 20-77; *Aro Mfg. Co. v. Convertible Top Replacement Co.*, 377 U.S. 476, 507 (1964); see also *General Motors Corp. v. Devex Corp.*, 461 U.S. 648, 654-55 (1983).

62. However, monetary damages themselves sometimes may fail to provide complete compensation for the harm caused by infringement. For a description of inadequacies of damages for unquantifiable competitive advantages in the trade secret area, see Holly Emrick Svez, Note, *Japan's New Trade Secret Law: We Asked For It—Now What Have We Got?*, 26 *Geo. Wash. J. Int'l L. & Econ.* 413, 430 (1992) (listing "advantages such as control over the direction and marketing of a new technology; . . . the right to be the first to market; a reputation for innovation; customer loyalty and the respect of peers; and the absence of any need to be entangled in continuous litigation").

63. *Polaroid Corp. v. Eastman Kodak Co.*, 16 U.S.P.Q.2d 1481, 1484, (D. Mass. 1990), amended by 17 U.S.P.Q.2d 1711 (D. Mass. 1991); Yoshiyuki Tamura, *Chitekī zaisan ken to songai baishō* (Intellectual Property and Monetary Damages) 257 (1993); see also *Wurst & Wang, supra* note 41, at 12.

64. *Wurst & Wang, supra* note 41, at 20 (citing *Hanson v. Alpine Valley Ski Area, Inc.*, 718 F.2d 1075, 1078 (Fed. Cir. 1983)).

is considered appropriate compensation for infringement.<sup>65</sup> In the United States, if a patent holder actually has licensed the patent to others, the fees charged may be used as a basis for establishing the royalty that theoretically would have been charged to the defendant.<sup>66</sup> If, however, the plaintiff cannot establish the license value of the patent due to evidentiary or other reasons, reasonable royalty is the appropriate measure of recovery.<sup>67</sup> In this case, the court must provide a best estimate of what the theoretical fee for the license would have been.<sup>68</sup> Reasonable royalty therefore generally provides a fall-back measure of damages for the plaintiff who cannot show the extent of lost profits.

### *B. The Recovery of Lost Profits in Japan: Civil Code Article 709*

Although patent holders prefer lost profits as the measure of damages, they are difficult to recover in Japan. Judicial interpretations of the damages provisions of the patent law have imposed strict requirements on plaintiffs trying to prove lost profits. In particular, court interpretations of causation have greatly limited the conditions under which a plaintiff can establish lost profits. The result is that in most situations a plaintiff must be content with recovering a reasonable royalty rather than the more desirable lost profits.

Although the language of Japan's patent law specifically provides for the recovery of a reasonable royalty,<sup>69</sup> the statutory basis for recovery of

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65. Chisum, *supra* note 28, § 20.03, at 20-78.

66. *See id.* § 20.03[3], at 20-159. However, recovery of royalty payments that theoretically would have been charged does not compensate the plaintiff for the benefits that might have been obtained by preventing the defendant from working the patent. *See supra* note 62.

67. Chisum, *supra* note 28, § 20.03[3], at 20-159. The concept of reasonable royalty is similar in Japan. *See Tamura, supra* note 63, at 23.

68. However, the estimate must be based on evidence in the record. Chisum, *supra* note 28, § 20.03[3], at 20-160.

69. Pat. L. § 102(2) (Japan). The complete text is as follows: "A patentee or exclusive licensee may claim, from a person who has intentionally or negligently infringed the patent right or exclusive license, an amount of money which he would normally be entitled to receive for the working of the patented invention, as the amount of damage suffered by him." *Id.*

The patent law also explicitly provides for recovery of the infringer's profits, basically a measurement variation of the other two forms of damages. Pat. L. § 102(1) (Japan). The complete text is as follows:

Where a patentee or exclusive licensee claims, from a person who has intentionally or negligently infringed the patent right or exclusive license, compensation for damage caused to him by the infringement, the profits gained by the infringer through the infringement shall be presumed to be the amount of damage suffered by the patentee or exclusive licensee.

lost profits is found outside the patent law in Civil Code article 709.<sup>70</sup> Patent Law section 102(3) provides that “[t]he preceding subsection [referring to reasonable royalty] shall not preclude a claim to damages exceeding the amount referred to therein.”<sup>71</sup> Civil Code article 709, a general damages provision that provides for compensation for an unlawful act and serves as the foundation for Japan’s “tort” law,<sup>72</sup> contains specific statutory language authorizing a claim for lost profits. Article 709 states that “[a] person who violates intentionally or negligently the right of another is bound to make compensation for damage arising therefrom.”<sup>73</sup> Courts interpret the combined language of Patent Law section 102(3) and Civil Code article 709 to allow a patent holder to pursue a claim for the recovery of lost profits.<sup>74</sup>

The primary theory for the recovery of lost profits in Japan is that infringing products result in increased supply, thereby driving down the price the patent holder can command for a product and resulting in lost profits for the patent holder.<sup>75</sup> Although it also might be inferred that infringing products of poor quality lower the market value of a patent holder’s products, there have been few cases in Japan awarding damages

*Id.*

In comparison, the current U.S. rule is that “[w]hile the infringer’s profits may be considered as evidence tending to establish what constitutes a reasonable royalty or the amount of damages, they may not be recovered as such.” Chisum, *supra* note 28, § 20.02[4], at 20-63 to 20-64. For discussion of recovery of the infringer’s profits in Japan, see *infra* part III.C.

70. Civil Code [Civ. C.] art. 709 (Japan), translated in 2 *EHS Law Bulletin Series* (Eibun-Horei-Sha [Codes Translation Institute] ed., 1992). In the United States, lost profits are recoverable based on a relatively straightforward interpretation of statutory patent law. The language of the U.S. patent law specifically provides for the recovery of “damages adequate to compensate for the infringement.” 35 U.S.C. § 284 (1988). U.S. courts interpret this language to allow for the recovery of lost profits. *Seymour v. McCormick*, 57 U.S. (16 How.) 480 (1853) (interpreting the Patent Act of 1836); see also *Del Mar Avionics, Inc. v. Quinton Instrument Co.*, 836 F.2d 1320, 1326-27 (Fed. Cir. 1987) (interpreting current patent act).

71. Pat. L. § 102(3) (Japan).

72. Because Japan is a civil law country, “tort” liability technically is classified as a “private delict.” For a brief summary of the distinctions between “tort” and “delict,” see *Black’s Law Dictionary* 427 (6th ed. 1990). For an overview of Japanese tort law, see Hiroshi Oda, *Japanese Law* 207-31 (1992).

73. Civ. C. art. 709 (Japan). In Japan, there is a statutory presumption that any infringement is negligently committed. Pat. L. § 103 (Japan).

74. Tamura, *supra* note 63, at 1-6.

75. *Id.* at 1-2 (citing (Tobacco Roller), 567 *Hanrei Times* 329, (Okayama Dist. Ct., May 29, 1985)).



based on such a claim.<sup>76</sup> Thus, a plaintiff's primary cause of action lies in demonstrating that the infringer's illicit activity caused a decrease in the sales price as well as the sales volume of the patented article.

The evidentiary burden of demonstrating damages can be severe, as discussed above.<sup>77</sup> However, in addition to procedural difficulties, the patent plaintiff also faces a court that tends to take an "all or nothing" approach to lost profits.<sup>78</sup> Japanese courts essentially have held that in order to recognize lost profits, all products sold by the defendant must eliminate a corresponding potential sale by the plaintiff.<sup>79</sup> Lacking this clear-cut one-to-one correspondence, Japanese courts have been reluctant to grant any lost profits damages to a plaintiff patent holder.<sup>80</sup>

Few situations permit the demonstration of a one-to-one correspondence. Cases where lost profits have been recovered involve the situation where evidence of a customer's decision to purchase the infringer's product instead of the plaintiff's can be discovered and

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76. *Id.* (but noting an exception in (Hairbrush case), 16(3) *Mutai Shu* 803 (Osaka Dist. Ct., Dec. 20, 1976)).

Note, however, that specific statutory protection is provided for recovery of business reputation, which might be applicable in this area. The relevant provision provides the following:

Upon the request of a patentee or exclusive licensee, the court may, in lieu of damages or in addition thereto, order a person who has injured the business reputation of the patentee or exclusive licensee by infringing the patent right or exclusive license, whether intentionally or negligently, to take the measures necessary for the recovery of the business reputation.

Pat. L. § 106 (Japan). Another form of remedy would be to order the defendant to make a public apology. Although apology is taken seriously in Japan and court-ordered apology could be a significant form of remedy (see generally, Hiroshi Wagatsuma & Arthur Rosett, *The Implications of Apology: Law and Culture in Japan and the United States*, 20 *Law & Soc'y Rev.* 461 (1986)), Japanese courts have been reluctant to order public apologies. See *Digest of Japanese Court Decisions in Patentability and Patent Infringement Cases 1966-1968*, at 80 (Yukuzo Yamasaki ed. & trans., 1970) [hereinafter *Digest 1966-1968*] (editor commenting on Japanese practices).

77. See *supra* notes 37-47 and accompanying text.

78. Tamura, *supra* note 63, at 2, 5.

79. *Id.* at 5; see also *Tsugami Seisakusho K.K. v. Taiyo Seiki Seisakusho K.K.* (Tokyo Dist. Ct., Aug. 31, 1965), translated in *Digest of Japanese Court Decisions in Patentability and Patent Infringement Cases 1964-1965*, at 82 (American Chamber of Commerce in Japan, ed., 1968) [hereinafter *Digest 1964-1965*] (denying damages although defendant sold at least 18 infringing products because plaintiff could not prove that it would have sold the same number of products in absence of infringement).

In contrast, it is not necessary for a U.S. plaintiff to show that it could have made every single infringing sale. See *Standard Havens Prods., Inc. v. Gencor Indus., Inc.*, 953 F.2d 1360, 1373 (Fed. Cir. 1991), *cert. denied*, 113 S. Ct. 60 (1992); *Kaufman Co. v. Lantech, Inc.*, 926 F.2d 1136, 1143-44 (Fed. Cir. 1991).

80. Tamura, *supra* note 63, at 5; see also *Tsugami Seisakusho K.K.*, translated in *Digest 1964-1965*, *supra* note 79, at 82.

introduced.<sup>81</sup> Courts also have awarded lost profits where the plaintiff's and defendant's products were the only two comparable products in the marketplace (i.e., a two-supplier market).<sup>82</sup> However, if the infringer's product is less expensive than the plaintiff's, particularly if the infringer's product is of superior quality, or if the plaintiff entered the relevant geographic market after the defendant, the court is unlikely to find causation and will deny the recovery of lost profits.<sup>83</sup>

The result is that lost profits rarely will be recoverable. A customer's frame of mind usually is not discoverable. Furthermore, the plaintiff and infringer seldom are the only two competitors in the marketplace and non-infringing alternative products frequently will exist.<sup>84</sup> Finally, if the patent holder is not actually using the patent commercially in Japan, lost profits will not be available.<sup>85</sup> Thus, without even considering the procedural difficulties involved in gathering and presenting proof, few plaintiffs will be able to meet the proof of causation standard required for recovery of lost profits.

Although the recovery of lost profits theoretically is possible under Japanese law, the difficulty of demonstrating a one-to-one correspondence in sales lost to the infringer's illicit activity makes lost profits difficult to obtain.<sup>86</sup> In actual practice, damages for patent

81. Tamura, *supra* note 63, at 5.

82. *See id.* at 3-4; *see also* *Syntron Co. & Shinko Denki K.K. v. Nitto Denki Seisakusho, Ltd.*, (Tokyo Dist. Ct., Sept. 14, 1963), translated in *Digest of Japanese Court Decisions in Patent Infringement Cases 1955-1963*, at 90 (American Chamber of Commerce in Japan ed., 1965) [hereinafter *Digest 1955-1963*] (infringer's product provided only possible replacement in market).

In contrast, in the United States, courts recently have recognized lost profits based on market share in a multiple-supplier market. *See* *Wurst & Wang, supra* note 41, at 17 (citing *State Indus., Inc. v. Mor-Flo Indus., Inc.*, 883 F.2d 1573 (Fed. Cir. 1989), *cert. denied*, 493 U.S. 1022 (1990), as the first case in which a court of appeals recognized lost profits based on market share).

83. *See* Tamura, *supra* note 63, at 4; *Syntron Co. & Shinko Denki K.K.*, translated in *Digest 1955-1963, supra* note 82, at 90 (causation found where plaintiff's product higher in price but significantly better in quality). In the United States, if the infringer's price was significantly lower than the patent holder's, evidence of causation has been found insufficient. Chisum, *supra* note 28, § 20.03[1][b][v][F].

84. If the plaintiff's patent coverage is broad enough, the possibility of non-infringing alternatives may be eliminated. However, in a patent system with narrow patent claims interpretation, like Japan's, the likelihood of eliminating all non-infringing alternatives with a single patent is small. *See* Linck & McGarry, *supra* note 3, at 420-21 (discussing Japanese courts' narrow interpretation of patent claims).

85. Lindgren & Yudell, *supra* note 4, at 30.

86. *See* *GAO Report, supra* note 1, at 66 (discussing difficulty of discovery in Japan). *But see* *Syntron Co. & Shinko Denki K.K.*, translated in *Digest 1955-1963, supra* note 82, at 90 (dealing with rare case where infringer's product provided only possible replacement in market); *Nihon*

infringement in Japan are based more successfully on the specific damages provisions provided in Patent Law sections 102(1) and 102(2).<sup>87</sup> The result is a decrease in the likelihood that litigation will be worth pursuing. If lost profits are unavailable, some patent holders may find that it is not worthwhile to go to trial to enforce their rights.<sup>88</sup>

### C. *Presumed Damages: Patent Law Section 102*

Japan's patent law specifically provides for two presumed measurements for damages in a patent infringement lawsuit: reasonable royalty<sup>89</sup> and the profits gained by the infringer through the infringement.<sup>90</sup> Because recovery under these two statutes does not require meeting the arduous lost-profits standard of proof, they are the more common forms of recovery.<sup>91</sup> The amount of damages typically awarded under either of these provisions, however, often is less than the actual harm done to the plaintiff.

Proof of reasonable royalty requires the plaintiff to establish what "he would normally be entitled to receive for the working of the patented invention."<sup>92</sup> Presumably, satisfactory proof can be established by using the plaintiff's own records, thus avoiding the problems of a weak

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*Kentestu K.K. v. Kawakami Boeki K.K.* (Tokyo High Ct., Nov. 9, 1967), translated in *Digest 1966-1968*, *supra* note 76, at 97 (court eliminated possibility of purchasing patented product from abroad or from other manufacturers and determined that purchaser of infringing product could purchase only from patent holder or defendant).

In contrast, lost profits frequently are awarded in the United States. See Nancy J. Linck & Barry P. Golob, *Patent Damages: The Basics*, 34 J.L. & Tech. 13, 14-19 (1993); Donald S. Chisum, *1993 Patent Law Digest* §§ 6100-6210 (1993).

87. See *GAO Report*, *supra* note 1, at 66.

88. Lindgren & Yudell, *supra* note 4, at 30.

89. Pat. L. § 102(2) (Japan). For the text of § 102(2), see *supra* note 69.

90. Pat. L. § 102(1) (Japan). For the text of § 102(1), see *supra* note 69.

In the United States both of these forms of damages are structurally provided for under reasonable royalty. 35 U.S.C. § 284 (1988). The result is similar to that in Japan. Prior to 1946, U.S. law explicitly recognized an accounting of the infringer's illicit profits as a fourth category of monetary damages. See 35 U.S.C. § 70 (1940); Act of Aug. 1, 1946, ch. 726, 60 Stat. 778 (deleting reference to infringer profits). Current U.S. law provides that the infringer's profits merely constitute evidence of a reasonable royalty. See *supra* note 69.

91. See *GAO Report*, *supra* note 1, at 66 (stating that "in practice, damages awarded in Japan are usually based on a reasonable royalty because of the difficulty in determining lost profits without using discovery procedures").

92. Pat. L. § 102(2) (Japan).

discovery system discussed above.<sup>93</sup> However, reasonable royalty is only a best estimate of what a plaintiff would have charged to license the defendant to work the patent if a license had in fact been granted. Because a licensee who works a patent will desire some amount of personal profit, the license fee charged by the plaintiff inevitably will be less than the amount of profit potentially obtainable had the patent holder exclusively worked the license.<sup>94</sup>

In the case of infringement, however, patent holder *P* evidenced no desire to license the patent to infringer *D*. If *P* had licensed the patent to *D*, infringement would not have occurred. One of the primary reasons why *P* may have chosen not to license the patent to *D* may be a desire on the part of *P* to retain the entire potential profit and not settle for the reduced amount. Thus, theoretically the patent holder should be entitled to lost profits caused by *D*'s infringement. However, in Japan, stripped of the practical ability to recover lost profits, the patent holder is forced to settle for the reduced profit that a reasonable royalty award represents.

Recovering the infringer's profits may be even more troublesome for the plaintiff. To recover, the plaintiff must prove the amount of "the profits gained by the infringer through the infringement."<sup>95</sup> Proving the amount of the defendant's profits usually involves gaining access to the defendant's records, subjecting the plaintiff to all of the discovery problems discussed above.<sup>96</sup> Furthermore, even if those problems can be overcome, the favorable presumption equating damages with the infringer's profits will be worthless if the defendant has made little or no profit.<sup>97</sup> This situation is likely to be particularly relevant where the

93. See *supra* part II. However, if information regarding profitability is considered confidential, the plaintiff may choose to forego even this reduced remedy.

94. This result follows from the fact that the market will bear a certain price, *X*, for the patented product. If patent holder, *P*, sells the product, it can be sold for *X*. If infringer, *D*, sells the product, it also can be sold for *X*. However, *D* desires to make a profit and therefore will pay something less than *X* for a license to manufacture the patented product. If this something less is called *Y* and assuming *P*'s and *D*'s manufacturing costs are the same, *P* must forfeit the amount *X-Y* if *D* is granted a license. This illustrative model assumes that *P*'s and *D*'s manufacturing costs are equal and that *P* is a rational actor seeking only to maximize profit. If *P*'s manufacturing costs are more than *D*'s or if *P* does not wish to undertake manufacturing, then it may be profitable for both parties to negotiate a license. Presumably this situation usually exists when a license actually is negotiated.

95. Pat. L. § 102(1) (Japan).

96. See *supra* part II.

97. See Pat. L. § 102(1) (Japan). But see *K.K. Marushin v. Mitsuru Kobayashi* (Tokyo Dist. Ct., Sept. 13, 1967), translated in *Digest 1966-1968, supra* note 76, at 76 (apparent anomaly where court multiplied the plaintiff's rate of profit by the defendant's sales figure when the defendant claimed no profits from sales of the infringing product).

defendant is new to the market and forced to charge less than the plaintiff would in order to acquire new customers. Thus, the plaintiff faces not only severe evidentiary problems in trying to establish the defendant's profits, but also, once again, the likelihood of recovering "profits" substantially less than those actually lost.

*D. Lack of Increased Damages in Japan and Reasonable Royalty as a Ceiling on Recovery*

The Japanese failure to provide for the possibility of increased damages in patent infringement cases eliminates the possibility of rectifying inequitable damages awards resulting from evidentiary or other procedural barriers.<sup>98</sup> Coupled with a situation in which lost profits are hard to collect, the lack of increased damages creates a system where reasonable royalty serves as a functional cap on recovery of damages. This result stands in stark contrast to the United States, where reasonable royalty serves as a floor, not a ceiling.<sup>99</sup> Given these limitations, the Japanese system provides limited financial disincentives to prevent infringement.<sup>100</sup>

In the United States, the ability to provide up to treble damages allows a court to remedy inequities in damages awards created by evidentiary or other procedural difficulties.<sup>101</sup> While increased damages potentially may result in overcompensation to the plaintiff, they also provide a court with the ability to compensate plaintiffs for damages that cannot be proved or

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98. Japanese patent law provides for the collection of actual damages only. Pat. L. §§ 102, 106 (Japan); Civ. C. arts. 709-724 (Japan). In the United States, increased damages are expressly provided for by statute. 35 U.S.C. § 284 (1938) (providing that in a successful patent infringement action "the court may increase the damages up to three times the amount found or assessed").

In general, Japan has not adopted policies allowing for multiple damages. For instance, although Japanese antitrust laws were largely imported from the United States after 1945, Japan specifically declined to adopt a provision allowing for the possibility of treble damages. In addition, Japanese law does not allow for the recovery of punitive damages. See Norman T. Eraslow, *Recognition of United States Punitive Damages Judgments in Japan: A Critical Historical Analysis of the Origins, Function and Public Policy Foundations of Punitive Damages* 17-23 (1994) (unpublished LL.M. thesis, University of Washington).

99. U.S. patent law explicitly provides that a successful patent plaintiff shall be awarded "in no event less than a reasonable royalty." 35 U.S.C. § 284 (1988). U.S. courts have expressly upheld this standard. *Del Mar Avionics, Inc. v. Quinton Instrument Co.*, 836 F.2d 1320, 1326 (Fed. Cir. 1987) (stating that "the purpose of this alternative is not to provide a simple accounting method, but to set a floor below which the courts are not authorized to go").

100. However, other deterrents to infringement exist. See *infra* part V.

101. See 35 U.S.C. § 284 (1988); Dobbs, *supra* note 9, § 3.12, at 359 & n. 18.

are otherwise unrecognized by the law.<sup>102</sup> The absence of increased damages in Japan limits the judiciary's ability to remedy inequitable results.

It is somewhat ironic that the Japanese Diet<sup>103</sup> has provided the courts with some ability to decrease a damages award for equitable reasons<sup>104</sup> but has not provided the courts with any ability to increase damages awards.<sup>105</sup> A truly equitable system would allow adjustments to be made in both directions. By failing to allow courts to adjust damage award upwards in deserving circumstances, Japanese patent law limits the ability of courts to provide equitable remedies in some instances.

The absence of increased damages in Japan is likely to have other negative enforcement effects as well, all but ensuring that reasonable royalty will be the maximum damages recovered. Limiting damages to less than the actual harm inflicted upon the plaintiff decreases the disincentive for "taking" protected technology. If it is cheaper to risk a lawsuit and the possibility of having to pay damages, which most likely will be limited to a best estimate of a reasonable royalty, rather than to lawfully license technology, Japanese competitors will have an incentive to infringe patents.<sup>106</sup> Because in many cases reasonable royalty will serve as the maximum recovery available, a damages award presumably will cost no more than the price of a license, plus the cost of defending a

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102. For a general discussion concerning multiple damages, see Dobbs, *supra* note 9, § 3.12.

103. The Diet is the national legislature of Japan.

104. Patent Law section 102(3) allows Japanese courts to reduce damages in the absence of willfulness or gross negligence. The wording of the statute suggests that this potential reduction is available only if the claim is for lost profits and not for reasonable royalty:

The preceding subsection [providing a statutory presumption of reasonable royalty] shall not preclude a claim to damages exceeding the amount referred to therein. In such a case [i.e., a claim for lost profits under Civil Code article 709], where there has been neither willfulness nor gross negligence on the part of the person who has infringed the patent right or the exclusive license, the court may take this into consideration when awarding damages.

Pat. L. § 102(3) (Japan). For additional support for this conclusion, see *Nihon Filing K.K. et al. v. K.K. Naito Seitetsujo* (Book Shelf Case), 12 *Kakyo Minshu* 2808 (Tokyo Dist. Ct., Nov. 20, 1961), translated in part in Amemiya & Nishimoto, *supra* note 43, § 2.17[2], at VI 2-149; § 2.17[3], at VI 2-152 (providing that "[a]n amount of damages equal to a reasonable royalty is considered to be the minimum damage sustained by the patent owner"); *Intellectual Property Protection in Asia* § 5.13, at 5-25 (Arthur Wineburg ed., 1994) ("The court cannot reduce damages below reasonable royalty even if the court were to find the absence of both willfulness and gross negligence.").

105. See *supra* note 98.

106. Note that there may be other effective forms of deterrence in Japan. See *infra* part V.

lawsuit. Though this latter cost is by no means insubstantial in Japan,<sup>107</sup> it can be minimized by reaching a prompt settlement.

#### IV. ADDITIONAL DISINCENTIVES TO LITIGATION: LACK OF ATTORNEYS' FEES AND LITIGATION FILING FEES

##### A. *No Attorneys' Fees in Japan*

A further barrier to patent litigation is the unavailability of attorneys' fees in a Japanese patent infringement action.<sup>108</sup> The general provisions of the Civil Code concerning recovery of court costs are incorporated into the patent law.<sup>109</sup> The rule in Japan is that "the losing party pays for his own as well as his adversary's litigation expenses."<sup>110</sup> However, attorneys' fees are not considered to be recoverable expenses.<sup>111</sup> If attorneys' fees are not deductible, a plaintiff's true financial recovery is the amount of the damages award less the cost of attorneys' fees.<sup>112</sup> As previously stated, a damages award in Japan is likely to fail to fully

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107. For a discussion of the costs of a lawsuit in Japan, see Wachter, *supra* note 26, at 68-70; Forstner, *supra* note 29, at 13-15.

108. In the United States, attorneys' fees are available in "exceptional cases." 35 U.S.C. § 285 (1988). This language generally has been interpreted by the courts to mean willful or deliberate infringement. Chisum, *supra* note 28, § 20.03[4][c], at 20-384 to -385. In addition, it appears that since the creation of the Federal Circuit, attorneys' fees have been awarded with increasing frequency in the United States. Brian D. Coggio et al., *Damage Control—What an Adjudged Infringer Can Do To Minimize the Resulting Damage*, 15 AIPLA Q.J. 250, 252 (1987).

109. Pat. L. § 169 (Japan) (incorporating C. Civ. P. arts. 89-94, 98(1)-(2), 99, 101, 102, 121(1), 122(1), and 126(1)).

110. Hattori & Henderson, *supra* note 55, § 10.01, at 10-2 (citing C. Civ. P. art. 89). *But see* Forstner, *supra* note 29, at 16 (noting a practicing Japanese patent attorney's opinion that "in practice, where damages are awarded, plaintiffs seldom seek to recover costs").

111. Hattori & Henderson, *supra* note 55, § 10.01, at 10-2.

An argument has been made that attorneys' fees should be recoverable as damages based on the Japanese Supreme Court's decision in *Lin v. Uchiyama*, 548 *Hanrei Jihō* 19 (Sup. Ct., P.B., Feb. 27, 1969) (holding attorneys' fees recoverable as damages in an action to recover property the defendant wrongfully seized and auctioned based on an already invalidated mortgage registration). The basic theory of the Court was that a person injured by a tortious act who must retain counsel and file a lawsuit to protect his or her interest may recover attorneys' fees as part of the damages. Hattori & Henderson, *supra* note 55, § 10.01, at 10-2 n.3. Based on this decision, the possibility exists that attorneys' fees are recoverable in patent cases. Lee & Kubota, *supra* note 37, at 253-54 n.156 (noting claims for attorneys' fees in other "tort" cases, such as automobile injury cases and pollution cases, and suggesting that plaintiffs' self-restraint may be the reason why attorneys' fees are not currently included in patent infringement cases).

112. Even if damages actually are awarded, they still may be difficult to collect. However, discussion of the Japanese law on the execution of judgments is beyond the scope of this Comment.

compensate a plaintiff for patent infringement. When attorneys' fees are subtracted, it will provide even less adequate consideration. Given the limited nature of monetary recovery, it is not surprising that few patent infringement cases result in final judgment.<sup>113</sup>

*B. Filing Fees*

A final disincentive to bringing an infringement action in Japan is the filing fee that must be paid upon initiation of a lawsuit.<sup>114</sup> The fee is based on a percentage of the value of the dispute. The fee schedule is roughly 0.5% at the trial court level, 0.75% for appeals to the high court, and about 1.0% for appeals to the Japanese Supreme Court.<sup>115</sup> These fees are cumulative.<sup>116</sup> The dispute value usually equals the economic value of stopping future infringement plus an amount of past damages.<sup>117</sup> As discussed earlier, the amount of the damages claim must be specified at the time the case is filed.<sup>118</sup> The amount of this claim will form the basis for calculating the economic value of the suit, which in turn is used to determine the court fee.<sup>119</sup> This official fee must be paid in advance.<sup>120</sup> Thus, a plaintiff in Japan must weigh the amount of damages claimed against the chance of success and will normally want to have a reasonable chance of success before filing a large claim.<sup>121</sup> Additional claims for damages may be added at any time while the lawsuit is pending, which in turn will require the payment of additional fees.<sup>122</sup>

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113. Indeed, one might begin to wonder why any patent claims reach final judgment. Presumably, in certain cases the defendant is so intractable in negotiations that the plaintiff has little choice but to proceed to final judgment. In other cases, the benefits of obtaining an injunction or the likelihood that the value of damages less attorneys' fees still will exceed the defendant's settlement position may lead a plaintiff to pursue a case to judgment.

114. Note that there is no fee charged to the defendant.

115. Forstner, *supra* note 29, at 14.

116. *Id.*

117. *Id.*

118. *See supra* note 37 and accompanying text.

119. Forstner, *supra* note 29, at 14.

120. *Id.*

121. *Id.*

122. *Id.*



## V. ENFORCEMENT IN A SYSTEM WITH LIMITED DAMAGES

It is possible to successfully enforce a patent in Japan.<sup>123</sup> However, the limited nature of equitable and monetary relief available through litigation means that other methods of enforcement are vitally important. A primary restraint on patent infringement in Japan is probably the shame associated with violating a recognized rule of society.<sup>124</sup> The fact that a law prohibiting infringement exists legitimizes the idea that infringement is wrong.<sup>125</sup> So long as members of Japanese society fear the social costs of committing a wrongful act, patent owners have significant protection against infringement.<sup>126</sup>

However, protection based merely on other individuals' notions of "wrong" may be tenuous. Acts committed against non-community members may not carry the same social stigma as those committed against community members.<sup>127</sup> Shame felt in response to actions of, or against, non-community members may be entirely different than that felt in response to actions of, or against, community members.<sup>128</sup> Patent infringement warning letters often are respected out of concern for maintaining harmony or "saving face" in Japan.<sup>129</sup> However, if the patent holder is not a full member of Japanese society, for instance if the patent holder is a foreign corporation without a major presence in Japan, a warning letter may lack value and may be dispensed with.<sup>130</sup> Thus, American inventors or small concerns seeking to profit from patent rights in Japan should be aware of the limitations of being a newcomer or a

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123. See Wachter, *supra* note 26, at 85 ("[F]rom the perspective of an American attorney who has experienced the challenge, I am convinced that a foreign-attorney can effectively manage and direct successful Japanese patent enforcement litigation to effectively remedy violations, in practical terms and at a cost which can be justifiable."); Lindgren & Yudell, *supra* note 4, at 32 (stating that Americans' "intellectual property can be effectively protected in Japan").

124. See generally John Braithwaite, *Crime, Shame and Reintegration* (1989) (discussing the regulating force of shame in all cultures and in Japan in particular); see also Lee & Kubota, *supra* note 37, at 255 (stating that judgments in patent infringement cases have been voluntarily observed and theorizing that this result probably occurs because defendants often are big companies who do not wish to risk tarnishing their valuable reputations).

125. See Haley, *supra* note 18, at 6-7.

126. Indeed, the importance of this shame may be more important than the monetary sanction (punishment) itself. See Braithwaite, *supra* note 124, at 59-61.

127. See Chie Nakane, *Japanese Society* 20-21 (1st paperback ed. 1972) (describing situations resulting from a strong "them" and "us" consciousness in Japan).

128. See Braithwaite, *supra* note 124, at 127-29.

129. See Lindgren & Yudell, *supra* note 4, at 26; Wachter, *supra* note 26, at 74.

130. Wachter, *supra* note 26, at 74.

small player in the Japanese system. A system based on shame tends to reflect the value of the insiders, protect their interests, and maintain the status quo.

On the other hand, notions of acceptable behavior can change rapidly. Typically, Japanese corporations have not sought to aggressively enforce their patents. This failure to enforce their patents may be because of a cultural predisposition to harmony, but it also may be because most Japanese companies were playing "catch up" and had more incentive to borrow new technology from others than to try to protect their own. Thus, the community as a whole benefited from a weak patent enforcement system. To the extent that Japanese corporations are increasingly developing valuable technology and have a desire to protect its misappropriation, there will be increased pressure to strengthen the patent protection laws of Japan. There is evidence that the situation might be moving in this direction. For example, currently Fujitsu and Mitsubishi are taking an aggressive approach to enforcing their patents, exhibiting a preference for full-blown litigation over negotiated settlement.<sup>131</sup>

Although Japanese patent enforcement may work for Japanese concerns, American owners of Japanese patents are likely to find the system unsatisfactory for protecting their interests. Limited judicial relief forces reliance on other methods of enforcement. However, these other methods are highly cultural and may not adequately protect a foreigner's interest, particularly a foreigner who has not fully entered the Japanese system. The result is likely to be an increased number of Americans dissatisfied with Japanese patent policy.

## VI. CONCLUSION

An improved patent application system will help level the playing field, but unfortunately American manufacturers may not be prepared to play ball on the new field where they find themselves. As American baseball players in Japan have found, though the game may resemble what they knew in the United States, if they want to play ball successfully, they have to play it the Japanese way.<sup>132</sup> Patent protection will be no different.

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131. Lindgren & Yudell, *supra* note 4, at 14.

132. See generally, Robert Whiting, *The Chrysanthemum and the Bat: The Game Japanese Play* (1977); Robert Whiting, *You Gotta Have Wa* (1989).

An improved application process hopefully will ease access for foreigners and thereby reduce the number of complaints regarding the acquisition of patent rights in Japan. However, without addressing the remedy side of the equation, the reforms themselves actually may lead to an increase in the total number of complaints regarding the Japanese patent system. Assuming a modified application process allows more foreigners to obtain patents and enter into the Japanese system, future problems will draw complaints from an increasing number of foreign patent holders. Complaints will arise where problems are encountered, and problems are likely to be encountered when foreigners try to enforce their newly acquired Japanese patent rights. Thus, rather than diminishing, American complaints about the Japanese patent system are likely to increase, merely shifting from the application process to the enforcement system. As an increasing number of American businesses likely will soon find out, it is one thing to receive a patent in Japan; it is quite another to enforce it.