

IP Boom or IP Bashing?

– Current Trends in IP Legislation and Case Law –

By *Takenaka Toshiko Ph. D.*

Legal Developments in Japan and the United States

Everyday, one can find at least a column or two in Japanese newspapers reporting some new developments in intellectual property (IP), some new lawsuit or legislation, for example. This is also true in the United States, at least as far as national papers such as the *Washington Post* or the *Wall Street Journal* are concerned. Things have changed over the last two decades. IP, which was once appreciated by only a small circle in the legal community, namely patent attorneys, is now part of every legal and business professional's life. How has the IP boom happened in such a short time?

Japan

Inspired by the US legislation of the 1980s and 1990s, Japan's Ministry of Economy and International Trade (METI) and its agency, the Japan Patent Office (JPO), found a recipe in IP policy to revive the Japanese economy. Japan's efforts originated from the report prepared by the Commission on Intellectual Property Rights (IPRs) in the 21st Century published in 1997. The report recognized IP as a driving force for activating a "cycle for intellectual creation" and emphasized the need to strengthen IP protection to promote breakthrough inventions which would arguably lead Japan to a recovery from its recession.

Since then, the term "intellectual creation cycle" has become a key phrase for the Japanese government. In particular, Arai Toshimitsu, a former JPO commissioner, led an extensive campaign to promote the status of IPRs and raised the awareness of such rights among politicians. His efforts resulted in the creation of the Strategic Council on IP, which directly advises

Japan's prime minister.

In March 2003, about the same time the Basic Law of Intellectual Property (Basic IP Law) went into effect, the IP Strategy Headquarters was instituted in the Cabinet. The Headquarters is led by the prime minister and comprises all Cabinet members and ten representatives from industry, academic and the legal profession. The Strategy Headquarters has its own secretariat comprising bureaucrats dispatched from ministries and agencies who are in charge of various aspects of IP. This bureaucratic think-tank is led by Arai, who also served as a member of the Strategic Council.

Soon after its establishment, the Headquarters started to publish an annual strategic plan for reviewing the current IP system and proposing improvements. The first strategic plan lists 270 measures that comprehensively cover the necessary actions for accomplishing Japan's IP strategy proscribed in the Basic IP Law. With respect to each measure, the program identifies a ministry or agency that is in charge of implementation and a target schedule. Thus, the Headquarters does not execute the listed measures directly. Instead, their main task is to constantly check the progress of implementation by the responsible ministry or agency, and to reevaluate the program, if necessary.

In addition to these activities, the Headquarters selected three important issues and decided to handle them in parallel with their examination of the ministries and agencies in charge of executing measures relating to the issues. The three issues selected by the Headquarters were: (1) medical method patent protection, (2) media contents protection, and (3) IP enforcement. To tackle these issues, the Headquarters organized expert task forces. The scope of issues examined by the IP enforcement task force is

particularly broad as this expert task force examines not only the processes for the acquisition and enforcement of IP and measures against counterfeits and pirated copies, but also the education and training of legal professionals to represent IP owners.

As a result of these initiatives and measures, the Japanese IP system has undergone a major restructuring. Restructuring has also come about through the enactment of the Technology Transfer Promotion Law in 1989 for encouraging academic-industry technology transfer, and through the creation of an IP high court. A revision of patent law to shift the burden of proof to infringers to show causation has made it easier for the patentee to recover lost profits and has increased the amount of damages awarded by Japanese courts. This change has led to a significant increase in the number of IP lawsuits filed with Japanese courts.

United States

The US legal system has always done its best to strike a balance between the competing interests of IP owners who require incentives for creation and the public interest which reserves a freedom for competitors to engage in further developments. However, because of the strong enforcement of antitrust laws and the sentiment against IP rights being a legal "monopoly," a full two thirds of patents issued by the US Patent and Trademark Office (USPTO) were struck down by US courts in the post-war decades. Only since the creation of the US Court of Appeals for the Federal Circuit in 1984, have the odds improved to better than 50% that a patent will be upheld as valid. Today, the Federal Circuit is known as a patent-friendly court. However, considering the hostile attitude of US

courts before its creation, the Federal Circuit can be viewed as simply trying to correct a balance which had hitherto greatly leaned toward the public interest, particularly the interests of those who competed with the patentees.

The new trend to view IP as “property” started when the US Supreme Court stated in the 1980 *Charkrabarty* decision that “anything under the sun made by man is patentable.” Citing this statement, the Federal Circuit found computer software and business methods within the scope of patent eligible subject matter. However, this trend has recently been under fire because of those patent owners who have abused their patent rights. These patent owners’ main business is to get quick cash by threatening to sue and stop manufacturing lines of alleged infringers. They are often referred to by the derogatory term “patent troll.” IT giants such as Microsoft and Cisco are easy targets for these patent owners because IT products include thousands of functions which may be covered by a patent procured by patent trolls. To make matters worse, the USPTO did not have a good database for examining new subject matter, such as software, when the IT industry first started to file patent applications in this area. Thus, the validity of many software patents comes under question once the validity of enforced patents are challenged. Further, the US first-to-invent system includes secret prior art which has never been discovered by the USPTO.

Patent trolls represent a phenomenon that is largely unique to the United States. There are several reasons for this. US court proceedings are notorious for being expensive, not only because of the costs of retaining experts to educate judges and jurors, but also because of the costs of expensive discovery proceedings. The estimated cost for patent litigation before the end of discovery is \$350,000 with respect to cases in which less than \$1 million is at risk. It rises to \$650,000

when the case goes to trial and results in a judgment. With respect to major cases where more than \$25 million is at risk, the estimated cost increases to \$3 million even if the case is settled at the end of discovery. This cost, in addition to the uncertainty in the infringement conclusion introduced by the jury system, gives alleged infringers strong incentives to settle a dispute and pay a royalty even if the patent validity is in question. Further, when regular players of industry negotiate for a license, prospective licensees can reduce a royalty by offering a cross-license. However, this strategy does not work with patent trolls who do not develop or manufacture any products. Instead, they purchase patents from individual inventors and firms who have gone bankrupt. In short, it is very unlikely that cash paid to patent trolls is used for investment in further innovations. Thus, patent troll activities do not contribute to a cycle for intellectual creation.

To stop the abuse, the IT industry tried to revise the US Patent Act to limit the infringement remedy. However, their attempt faced serious resistance by the pharmaceutical and biotechnological industries which favor strong patent protection. As a result, a bill to revise the Patent Act, which would have moved the US patent system more in line with those of the rest of world, has never passed either the House or the Senate subcommittees. IT and BioPharma Industries could not reach an agreement with respect to how or if remedy provisions should be revised.

Sentiment against patent trolls also moved the Supreme Court to take up the controversial *eBay Inc. v. MercExchange* case, wherein they confirmed district courts’ equitable discretion to grant injunctive relief. Commenting on patent trolls’ activities, Justice Anthony Kennedy noted that “[w]hen the patented invention is but a small component of the product the companies seek to produce and the threat of an injunction is employed

simply for undue leverage in negotiations, legal damages may well be sufficient to compensate for the infringement and an injunction may not serve the public interest.” Reflecting his view, the chance that a request of injunctive relief is denied has significantly increased if the patent owner does not produce any product except one that benefits universities and research lab patent owners.

Conclusion and Future

Both Japan and the United States have made a substantial commitment to invest resources in IP development. Despite the fact that no empirical data has confirmed the positive effects predicted for the US economy from its “pro-patent” policies, it is very likely that the Japanese government will claim such effects from its own IP policy for its slowly recovering economy. Academics indicate serious concerns over possible over-protection of IP and may view patent troll activities as negative effects resulting from such protection. However, there is always the potential for abuse of rights and misuse of legal systems. To avoid unreasonable results in exceptional cases, US courts can exercise their equitable powers and Japanese courts theirs reserved by the good faith principle provided in Civil Code Article 1. As long as courts can strike a balance between the two competing interests of patent-holder versus public interest through case-by-case application of IP doctrines, the IP system should be able to continue to play a key role in encouraging innovation and enriching knowledge and information. **JS**

Takenaka Toshiko is a professor of Law at the University of Washington School of Law, Seattle, USA and a visiting professor at Waseda Law School, Tokyo. She is also Washington Research Foundation/W. Hunter Simpson Professor of Technology Law and the Director of Center for Advanced Study and Research on Intellectual Property (CASRIP).