

Question Q228

National Group: JAPANESE NATIONAL GROUP

Title: **Patents - Prior User Rights**

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I. Analysis of current law and case law

1. Is there a provision in your national patent law that makes an exception to the exclusive right of a patent holder for parties who have used the invention before the filing/priority date of the patent ("prior user rights")?

(Answer): Yes. (Article 79 of the Japanese Patent Act ^{NOTE¹})

2. How frequently are prior user rights used in your country? Is there empirical data on how often prior user rights are asserted as a defense in negotiations or court proceedings?

(Answer): Although a prior user right is not a principal means of defense, it is used both in negotiations and court proceedings. There were 90 court cases involving prior user rights from 1961 to 2006 according to a report "For the smooth use of the prior user right" issued in June 2006 by the Japan Patent Office.

3. To what degree must someone claiming a prior user right have developed the embodiment which is asserted as having been used prior to the filing/priority date of the patent? Is it sufficient to have conceived of the embodiment, or must it have been reduced to practice or commercialized?

(Answer): A prior user right can be claimed not only based on the fact that an invention has been reduced to practice or commercialized, but also the fact that the prior user has been engaged in the preparations for a specific business activity, which constitutes exploitation of the invention. For example, he/she ordered necessary machinery for the working of the invention and completed such arrangements, or he/she concluded employment contracts and was engaged in considerable advertising campaigns. It is not sufficient to have conceived of the embodiment or borrowed funds for such preparation for the working of the invention.

4. Does it make a difference in your country if

^{NOTE¹} Article 79 of the Japanese Patent Act: *A person who, without knowledge of the content of an invention claimed in a patent application, made an invention identical to the said invention, or a person who, without knowledge of the content of an invention claimed in a patent application, learned the invention from a person who made an invention identical to the said invention and has been working the invention or preparing for the working of the invention in Japan at the time of the filing of the patent application, shall have a nonexclusive license on the patent right, only to the extent of the invention and the purpose of such business worked or prepared.*

- the prior use occurred before the priority date; or
- it occurred after the priority date, but before the filing date?

(Answer): Yes. A prior user right can be claimed only if the prior use has occurred on or before the priority date where priority is claimed.

5. Is there a territorial limitation with regard to the scope of prior user rights in your country? In other words, if a party has used the patented invention before the filing/priority date in a foreign country, can it then claim a prior user right in your country?

(Answer): As a territorial limitation, the Japanese law provides that a prior user right can be claimed only when the invention has been exploited "in Japan" and not when exploited in a foreign country according to Article 79 of the Patent Act (see NOTE1 above).

6. Is there a provision that excludes prior user rights for those who have derived their knowledge of the invention from the patent holder and/or the inventor?

(Answer): A person who can enjoy a prior user right has to be:

1) an inventor who makes an invention coincidentally identical to a claimed invention of a disputed patent application/patent, by himself at or before the time of the filing of the disputed patent application and works the invention; or

2) a person who learned the invention from the inventor of the aforementioned item 1). (see NOTE1)

Therefore, even if a person legally learns the claimed invention from an inventor of the disputed patent application/patent, such a person cannot enjoy a prior user right.

7. Is it necessary that the prior user has acted in good faith to be granted a prior user right?

(Answer): The Japanese patent law does not require that the prior user acts in good faith (see NOTE1). As long as a person satisfies the requirements described in the answer of Q6, this person can enjoy a prior user right, regardless of whether in good or bad faith.

8. Is there a material limitation with regard to prior user rights in your country? More specifically, if someone has used an embodiment of a patented invention before the filing/priority date of the patent, can he then claim a prior user right to anything covered by the patent? In particular, is the owner of a prior user right entitled to alter/change the embodiment of the patented invention used before the filing/priority date of the patent to other embodiments that would also fall within the patent's scope of protection or is he strictly limited to the concrete use enacted or prepared before the patent's application or priority date? In the event that changes/alterations are permitted by your national law, to what degree?

(Answer): Under the Japanese law, a prior user right may be granted to a person who claims it only "the extent of the invention and the purpose of such business worked or prepared" (see

NOTE1). According the past decision by the Supreme Court^{NOTE2}, "the extent of the invention or the purpose of such business worked or prepared" is construed as "the scope that does not affect identicalness to such an invention as embodied." In other words, an embodiment being worked (or prepared for its work) by a person claiming a prior user right at the filing (or priority) date of the disputed patent application is merely an example of embodiments that may be protected by a prior user right. It is allowed to alter/change the embodiment to the extent that it is found to be identical to such an invention (technical idea) as embodied.

If a person has used an embodiment of a patented invention on or before the filing/priority date of the patent application, the person can enjoys a prior user right to "something" covered by the patent in the case where the "something" is within "the scope that does not affect identicalness to such an invention as embodied." Therefore, as long as this identicalness is not affected or lost, it is allowed to change to other embodiments that would also fall within the scope of protection defined by a disputed claim.

9. Does a prior user right in your country require the continued use (or the necessary preparations of the use) of the invention claimed by the patent at the moment in which the objection of the prior user right is asserted or is it sufficient if the invention claimed by the patent has been used before the priority/filing date of the patent but has been abandoned at a later stage?

(Answer): In Japan, a prior user right requires the continued use (or the necessary preparations for the use) of the invention claimed by the patent at the moment at which the prior user right is asserted. This requirement will not be met if the invention claimed by the patent has been used before the priority/filing date of the patent but has been stopped at a later stage, so that the person cannot enjoy the prior user right.

However, if the use of an invention *seems* to have been abandoned, e.g. the prior user temporarily suspended a business activity (involving the use of said invention) after carrying it out to make/sell products, but reopened it later, it is possible that the use may be judged to have continued on the whole. If the prior user abandoned a business activity at the stage of preparation for it and restarted the preparation later, it is difficult that the use may be judged as "continued."

10. Is a prior user right transferable and/or licensable in your country? If yes, under what circumstances?

(Answer): A prior user right can be transferred only for one of the following legal bases. However, a prior user right cannot be licensed to a third party.

- 1) Transfer of business
- 2) General succession, including inheritance
- 3) Patent holder's consent to transfer the prior user right

11. Does your national law provide any exceptions or special provisions with regard to a prior user right owned by a company within a corporate group? In particular,

^{NOTE2}The effect of a prior user right is not limited to an embodiment worked or prepared by the prior user at the filing (priority) date of the patent application, but also extends to the embodiment, altered without losing identicalness to such an invention as embodied. (Decision of the Supreme Court 2nd Petty Bench dated 3 October 1986 "Walking Beam Furnace" case)

If an invention embodied by the mode of working of the prior user corresponds to only a part of a patented invention, the effect of his/her prior user right will be naturally limited to this part of the patented invention. If the scope of an invention embodied by the mode of working of the prior user is identical to the entire scope of a patented invention, the effect of his/her prior user right should be considered to extend to all of the patented invention.

can a prior user right be transferred or licensed to another group company?

(Answer): Japanese patent law provides for no exceptions or special provisions with regard to a prior user right held by a company within a corporate group. NOTE³ explains practices in this regard in Japan.

12. Are there any exceptions for any specific fields of technology or types of entity with regard to prior user rights in your country?

(Answer): No. In Japan, there is no exception for any specific fields of technology or types of entity with regard to prior user rights.

13. The Groups are invited to explain any further requirements placed on prior user rights by their national law.

(Answer): None

II. Policy considerations and proposals for improvements to your current system

14. Should a prior user right exist in any legal system? If yes, what is the main legal justification for a prior user right?

(Answer): Yes.

Under the current Patent Act of Japan, the justification for a prior user right is fairness and not just the protection of investment. This means a person who has invented an invention but has not applied for a patent shall be given a prior user right to a limited extent and on an exceptional basis, under the assumption that the patent holder is entitled to exclusive exploitation of the invention^{NOTE⁴}. Therefore, it is necessary to clearly state the limited scope

^{NOTE³} A prior user right can be transferred only in one of the three occasions mentioned in Question 10. It can be transferred to another group company if statutory conditions are met. Article 94 of the Patent Act provides for transfer of rights in the case of general succession or transfer of business. Although there is no special provision for transfer of rights between group companies, it would be easier for companies in the same group to meet the requirements. For example, if a subsidiary company is established by way of de-merger, prior user rights can be transferred by general succession. Even if a subsidiary is ordinarily established, prior user rights can be transferred in the form of transfer of business and this could be done more easily within the same company group.

There is no special provision for the sublicense of prior user rights. A prior user right is a type of non-exclusive license, and, in general, a licensee does not have a right to sublicense the IP right. Consequently, the holder of a prior user right is not allowed to sublicense his/her right to a third party. This interpretation is applicable to the case of a corporate group and therefore, a prior user right cannot be licensed to another group company.

^{NOTE⁴} As a way to balance the interests between a person (patent holder) who obtained an exclusive right by filing an application to disclose his/her invention and a person (prior user) who, without filing a patent application, started working the identical invention or making preparations for its working earlier than the patent holder (which is a typical case of double invention), it is considered fair to make up for disadvantages of the first-to-file system by giving the latter a right to work the invention to a certain extent. Under the Japanese Patent Act of 1921, the purpose of the prior user right system was to prevent loss in the national economy, e.g. if someone makes an invention and invests in necessary facilities (earlier than the patent application) but a patent is granted to another person, the former will not be able to work the invention and the investment may be wasted. Under the current Act of 1959, a prior user right may be granted not only to those who have invested in business facilities but also to those who have made preparation for such business in general, based on the notion that protection provided under the previous system is too narrow in scope, given the need for protection of inventors who did not file a patent application in the case of double invention etc.

of prior user rights in a statute.

15. What is the perceived value of prior user rights in your country?

(Answer): As mentioned in Question 14, a prior user right under the current Japanese law is valued not just for the protection of investment but also fairness.

With the advance of a global economy, however, there has been a significant change in how Japanese companies use the patent system. There is an opinion among Japanese corporate users that the current system should be revised by taking into consideration any new types of value (see Q's 16 and 26 below).

16. Are there certain aspects that should be altered or changed with regard to the existing implementation of the prior user right in your country? In particular, are there certain measures or ways that could lead to an improvement and/or strengthening of your current system?

(Answer): The prior user right is considered as a right that is granted on an exceptional basis, on the assumption that the patent holder is entitled to exclusive exploitation of the invention in return for its disclosure. There is no fully-fledged discussion underway, on alteration or change of this and other aspects, which might lead to amendment of provisions on the prior user right.

However, in industry where many corporate users are engaged in global operations, there is a demand for revisions with regard to the implementation of prior user rights as described below. From the viewpoint of promotion of innovation, it is increasingly considered important to actively provide legal protection to these companies.

1) Today, in many countries including Japan, a prior user right is admitted based on the fact of prior use made in areas within reach of sovereignty of a country where the right is claimed. However, the global companies think that a prior user right should also be admitted based on the fact of legitimate use of the invention made in other countries.^{NOTE5}

2) There are companies that choose not to file patent applications, as a strategy, for the purpose of preventing the details of their inventions from being known to the public. Such companies think that a prior user right should be as widely available as possible^{NOTE6}. Also, it is said to be desirable to ensure that trade secrets such as know-how will not be made public and to improve the environment that allows companies to assert a prior use defense without anxiety.

^{NOTE5} Global competition is becoming so vigorous that companies can no longer rely on their conventional strategy of filing patent applications, while predicting where the patented inventions will be exploited. When companies operate globally under these circumstances, their inventions are often imitated in countries where they have not filed patent applications. There is an argument that protection should be provided to the companies in such cases.

^{NOTE6} If the subject matter of an invention is a minor improvement (it is unlikely that a patent will be granted) and given the fact that an exclusive right is granted only in those countries where the patent application is filed, some companies choose to keep it as a trade secret (know-how) and they think this strategy is more effective in terms of economic value than its disclosure through a patent application. However, when someone else files a patent application for the same invention later and acquires a patent, it is possible that the company may be accused of infringement. The global companies argue that, to cope with such a case, prior user rights should be more widely available and this is consistent with the argument in^{NOTE5} above that a prior user right should be granted based on the fact of a use made anywhere in the world.

III. Proposals for harmonization

17. Is harmonization of "prior user rights" desirable?

(Answer): As we will explain in Q's 19 and 21 below, there is need for harmonization with regard to the critical date requirements^{NOTE7} and wider availability of prior user rights (grant of rights based on the fact of legitimate use in other countries)^{NOTE8} in Q16.

18. What should be the standard definition of "use" in relation to prior user rights? Must the use be commercial?

(Answer): We believe, as an internationally harmonized rule, the use in the context of an invention of a "product" should include not simply the act of using, but also the acts of making, assigning, exporting or importing, and offering to assign the product. In the context of an invention of a "process for making products," the use should include not simply the act of using the process, but also the acts of using, assigning, exporting or importing, and offering to assign the products made by the process. The use should be commercial.

19. What should be the definition of "date" (or "critical date") for prior user rights? (i.e. when must the invention have been used to establish a prior user right?)

(Answer): It is highly desirable that the critical date be defined, in an internationally harmonized manner, as the filing date or the priority date where priority is claimed.

20. Should a prior user right persist in the event that the use and/or preparation for use of the invention has already been abandoned at the time of the patent application/priority date or should the prior user right lapse upon the termination of the use and/or preparation of use?

(Answer): According to our opinion, a prior user right should not persist if the prior user has already abandoned the business activity (e.g. disposed of the facilities). If he/she decided to abandon (terminate) the use and/or preparation of use before the filing (priority) date, it is considered reasonable that a prior user right not be granted.

However, a prior user right should be granted if a business activity was temporarily suspended (not abandoned) and started again later. If a user is trying to decide whether or not to carry out business projects and one of these options is temporarily suspended, such a situation should not be construed as "termination of business" in the first place.

21. What should be the territorial scope of a prior user right? In particular, if a party has used the patented invention before the decisive date in a foreign country, should it then be entitled to claim a prior user right?

^{NOTE7} For establishment of a prior right, it is highly desirable that such a requirement as the following be set in an internationally harmonized manner: "use" or "preparation for use" must be made before the filing date (or priority date where priority is claimed) and continue at the filing (or priority) date (see Q19).

^{NOTE8} International harmonization will be indispensable from the viewpoint of those who believe that a prior user right should be granted based on the fact of legitimate use in other countries.

(Answer): According to the current law, if someone has used the patented invention before the decisive date in a foreign country, he/she cannot enjoy a prior user right. However, there is growing demand from the industry for wider availability of prior user rights (A prior user right should be admitted based on the fact of legitimate use in other countries as described in Q16). It should be necessary to discuss harmonization taking such argument into consideration.

22. Should there be a provision that excludes prior user rights for those who have derived their knowledge of the invention from the patent holder and/or the inventor? If yes, should it be necessary that the prior user has acted in good faith to be granted a prior user right?

(Answer): There should be limitations on how (from whom) a party learned the invention. More specifically, as a harmonized rule, it should be necessary that the prior user right has to be enjoyed by a person who makes an invention coincidentally identical to the disputed-patented invention without knowing about the disputed-patented invention claimed in a disputed patent application, or legally learned it from someone who made the coincidentally identical invention. If the prior user has learned the invention from the patent holder, protection by a prior user right will be unnecessary even though he/she has acted in good faith. In such a case, it should be necessary to get permission to work the patent invention from the patent holder.

23. Should there be material limitation with regard to prior use rights? In particular, if someone has used an embodiment of a patented invention before the filing/priority date of the patent, should he then be entitled to claim a prior user right to anything covered by the patent?

(Answer): As an internationally harmonized rule, it should be allowed to claim a prior user right to something covered by the patent if "something" is within "the scope that does not affect identicalness to such an invention as embodied" as explained in the answer of Q8.

24. Should a prior user right be transferable and/ or licensable?

(Answer): There should be such rules, in an internationally harmonized manner, as explained in the answer of Q10 above.

25. Should there be any exceptions for any specific fields of technology or types of entity with regard to prior user rights?

(Answer): We do not see the need for such exceptions.

26. The Groups are also invited to present all other suggestions which may appear in the context of the possible international harmonization of "prior user rights".

(Answer): Basically the same as what we mentioned in Q's 16 and 17. The Japanese Group completely agrees with a statement in para 7 (section "Previous work of AIPPI") of this Questionnaire "The passage of time and changes in relevant national laws make this topic ripe for reconsideration at this time."

Now that the countries in the world, including the US, have a common rule of the first-to-file system, it is desirable to start afresh with discussion from the viewpoint of truly international harmonization of important aspects of the patent systems in global society, regardless of developments in the past. As one of these important topics, discussion on the prior user right system should be restarted.

Summary

In Japan, a discussion regarding the prior user right including a necessity of amendment of an article in law has been inactive these days. This is because the prior user right is the last measure for a defendant in a law suit in the case where a defendant has no other options besides the prior user right. In general, a defendant asserts that the work of the invention by the defendant is not in the scope of a claim of the disputed patent or the disputed patent is invalid, prior to the assertion of the prior user right.

A remarkable discussion, however, has come out. There is a demand for revisions with regard to the implementation of prior user rights as described below. From the following viewpoint of promotion of innovation, it is considered important to actively provide legal protection to global companies.

1) Today, in many countries including Japan, a prior user right is admitted based on the fact of prior use made in areas within reach of sovereignty of a country where the right is claimed. However, the global companies request that a prior user right should be admitted based on the fact of legitimate use of the invention made in other countries, based on the borderless activities.

2) There are companies that choose not to file patent applications, as a strategy, for the purpose of preventing the details of their inventions from being known to the public. Such companies request that a prior user right should be as widely available as possible in this case.

In this context, the Japanese group of AIPPI supports to resume the discussion regarding the prior user right, and expects a profound discussion to harmonize it.