# In-Court and Out-of-Court Settlements of Intellectual Property Right Disputes

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## 1. Introduction

Since the latter part of the 1990s Japan has come to protect intellectual property, as well as to plan for its practical application and stimulate its creation. Through this, Japan has developed positive policies in order to improve the quality of our lives, activate the economy and society, and strengthen the international competitiveness of each industry and of the country. In addition, in the midst of this business activation there has come to be a strong consciousness about how to produce value not only from the conventional "tangible assets" but also from thoughts, know-how, technology, designs, brands and other "intellectual property" and "information assets".

Concurrently with this recent heightening of consciousness, economic activity centering on intellectual property has become vigorous, and along with that there has been an increase in legal disputes related to intellectual property. For such reason, there have been increased calls of late in the field of intellectual property for the actualization of a high-quality resolution system for legal disputes.

By the way, in June of 2000, the Judicial System Reform Commission issued its "Statement" in which necessary basic policies were set out for the actualization of a judicial system that would be easier for the citizens to use and for the substantial strengthening of the functions of the judicature. The Statement touches on the issue of IPR disputes under a separate heading. In particular, it sets out the following, policies for the purpose of shortening the trial period for IPR lawsuits: (a) the promotion of planned trials; (b) the expansion of procedures for the gathering of evidence; (c) further strengthening of a system of specialization in the courts, such as by giving exclusive jurisdiction to the Tokyo and Osaka district courts over patent rights and utility model rights, as well as (d) expanding and activating measures for out-of-court settlement of disputes (ADR).

Also, this year (2002) an "Intellectual Property Strategy Commission" was set up within the government, and in June an "Outline of Intellectual Property Strategies" was compiled with the purpose of activating the economy and society through the

protection and application of intellectual property. This was published in July. The Outline also recommended with respect to intellectual property right disputes such things as (a) jurisdiction over lawsuits concerning patent rights and utility model rights should be centralized at the high court level, and the system for specialized handling of intellectual property right trials should be strengthened; (b) the personnel base of the courts should be expanded; (c) evidence-gathering procedures should be expanded; (d) the system for compensation for damages should be strengthened; and (e) the protection of trade secrets should be strengthened. In addition, the Outline proposed the strengthening of ADR procedures.

**2. Volume of Cases in the Courts**

From the standpoint of actualizing a system for the resolution of disputes that will be easier for the citizens to utilize in intellectual property right disputes, here is a presentation of the actual situation regarding the volume of cases handled by the Intellectual Property Rights Division of the Tokyo District Court.

First of all, with respect to the trend in the number of cases, there were 146 new intellectual property right cases (regular lawsuits) accepted in the Tokyo District Court in 1990; that number had grown to 312 cases in 2000. So the annual number of new accepted cases (regular lawsuits) about doubled when compared to ten years before. In contrast, the disposition of lawsuits is changing for the better. The average trial time until the completion of a case in 2001 was about twelve months. When compared to ten years before that, it is a reduction to about half of the time required previously. This movement toward speedier trials is remarkable.

With respect to new intellectual property rights cases involving provisional disposition that were accepted by the Tokyo District Court, in 2000 there were 228 such cases, more than three times the annual rate ten years before that. In contrast, there was also a favorable change in the handling of provisional disposition cases. The average trial time until completion of a case in 2001 was 4.5 months, a reduction to about one-third of the time required ten years before that.

The reasons why the disposition of lawsuits was able to be speeded up like this are as follows. First, the apparatus for handling the resolution of intellectual property rights cases has been greatly strengthened because of the implementation of measures for increasing relevant staff and divisions in the courts. Second, trial proceedings have been rationalized by the reform of the Code of Civil Procedure and the Patent Law.

Third, various practical measures have been introduced for the management of litigation, with serious consideration given to speedy trials.

As one of the third aforementioned means for speedily and finally resolving cases and for making possible settlements that are acceptable to the parties, the court proceeds by disclosing its tentative impressions of the outcome of the case and making positive recommendations for an amicable settlement. In the following sections I will report on (a) settlements through litigation procedures, (b) settlements through procedures for provisional disposition and (c) specialized mediation for intellectual property.

**3. Voluntary Settlements in Court (Part 1 - Compromise Settlements)**

(1) Meaning of In-Court Compromise

In business disputes among companies such as disputes about the infringement of intellectual property rights, there are many cases where even after a lawsuit is filed the parties continually look into whether or not a voluntary settlement is possible. Furthermore, there are not a few cases in which the parties look forward to the promotion of amicable settlement proceedings by the court. In Japan, pursuant to the Code of Civil Procedure the court that is trying the litigation is permitted to promote settlement procedures on its own initiative.

In actual practice, in-court settlement procedures are often utilized and the rate of in-court settlement of intellectual property right litigation exceeds 50% of all such cases.

(2) Settlements and the Disclosure of the Court's Impressions

It is a recent trend that the court actively indicates its tentative impression of the case during the trial, regardless of whether it intends the case to settle or not.

The disclosure of the court's impressions has both merits and demerits. As a general consideration, there are the merits that through the court's disclosure of its impressions the parties can bargain for a voluntary settlementAlso, supposing that in the future there is a court decision, such disclosure is useful because the possibility of an unexpected judgment can be avoided. This will promote the final resolution of the case because the losing party is less likely to appeal, and even if the case is appealed,

there can be a compromise settlement in the appellate trial.) Consequently, the courts are actively disclosing their tentative impressions in practice.

Therefore, when the parties consider the possibility of settlement both parties can decide on whether or not to settle with the knowledge of the court's impression of the outcome of the case.

(3) Methods of Settlement

It is also quite common for a court to present to both parties at the same time a written settlement proposal reflecting the court's tentative impressions of the case, in order to advance the settlement proceedings. In addition, sometimes a written summary of the reasoning leading up to the settlement recommendation is given to the parties. The reasons why the court adopts these methods are (a) so that the parties can concretely examine the details of the court's conclusions as to the points in dispute, the sanctioned amount of money and so on, and more easily decide on their respective intents, and (b) to assure fairness in the settlement proceedings.

In principle, these types of reasons and amounts of damages that are reduced to a writing in the court's recommendation for a settlement often conform to what is in the judgment. However, it is possible that the court's settlement proposal may differ from the conclusion in the judgment, for the following reasons: (a) the court may calculate the damages without requiring strict proof as to non-essential points in dispute and (b) even with regard to the important issues there may be a proportionate calculation of damages reflecting the impression of the court as to the parties' relative prospect of success. However, in those cases, the settlement proposal will clearly note such intention.

Further, regardless of whether or not disclosure by the court of its impressions promoted settlement, in the event the settlement breaks down, the court does not permit the party who was disadvantaged by the disclosure of the court's impressions to provide supplementary arguments and proof but, rather, promptly concludes the case.

(4) Incentives for Compromise Settlements

Because of the aforementioned circumstances, once the parties have grasped the court's impressions of the case it is common for them to decide on whether or not to reach a compromise. The following factors are reasons why the parties choose a

compromise settlement after getting an understanding of the court's impressions.

First, in the case where the court's impressions are favorable to the plaintiff, the following factors can be taken into consideration. The advantages to the plaintiff of a compromise settlement include the following points. Namely, (a) to get a final resolution of the matter; (b) to avoid the risk that even if the plaintiff prevails in the trial of first instance, if the opposing party appeals, the first-instance decision may be overturned and the final resolution of the matter will be delayed; (c) also, with respect to patent rights and the like, there is more than some risk that in the process of the appellate trial publicly-known documents may be discovered that would invalidate the patent; this risk can be avoided with a compromise settlement; (d) if the defendant accepts the terms proposed by the court and enters into a settlement, there is a greater possibility that it will perform the provisions of the compromise agreement; (e) detailed arrangements can be made for future design changes or the like, further; and (f) since the defendant will withdraw any petition for invalidation of the patent, uncertainty as to the patent rights can be avoided. At the same time, the advantages of a compromise settlement to the defendant in such a case include the following: (a) the avoidance of the result of losing the lawsuit, which enables the defendant to escape harm to its business and (b) hope for a favorable resolution as to the terms and conditions of the amount of damages and so on.

Next, in the case where the court's impressions are disadvantageous to the plaintiff the following factors can be considered. Note that generally in such a case there are not so many advantages to a settlement by compromise for the parties but in actuality there are many examples of such settlements. In almost all cases the settlement includes the payment of money to be paid is which is comparatively less than the amount claimed in the action. Some of the advantages for the plaintiff in a compromise settlement are: (a) by evading the result of a lost lawsuit, harm to its business can be avoided; (b) the reference in the court's reasoning, rendered when it hands down the decision, of unexpected grounds for the failure of the plaintiff to prevail in the suit can be avoided; (c) depending on the case, the defendant will withdraw its petition for invalidation of the patent, so that the continued survival of rights can be anticipated. At the same time, the merits of a compromise settlement in such a case for the defendant include (a) resolution of the dispute at an early stage and (b) lightening of the burden of expenses related to the lawsuit.

## 4. Voluntary In-Court Settlements (Part 2 - Compromise Settlements in Provisional Disposition Proceedings)

Generally, many intellectual property right disputes concern products with short life-cycles. In order to resolve such disputes, in not a few cases provisional disposition proceedings are selected. Provisional disposition has the following characteristics: (a) it is inexpensive; (b) it can be carried out without being open to the public; (c) dates for questioning by the court are scheduled, but it is possible for the two parties to be heard separately; and (d) the speedy disposition is required.

When a court takes charge of a case for provisional disposition it must render its conclusions within a short time, but quite often it also gropes for a plan for voluntary settlement.

Since in the withdrawal of a petition for a provisional disposition by the obligee (the petitioner), the agreement of the obligor (the other party) is not needed, if it looks like he will lose the suit the obligee can retreat at any time by withdrawing the petition. Also, by this the obligee can avoid a lowering of its credibility that would result from losing the lawsuit, so it is extremely convenient. Furthermore, provisional disposition is powerful because, once it has been approved, the requisites for the suspension of execution are applied strictly, so that in actuality the suspension of execution cannot be expected. Since there are these kinds of merits for the obligee's side, when an obligee chooses to get a provisional disposition through the use of provisional disposition procedures, it can also hope for a more drastic compromise settlement. In addition, a speedy and early compromise settlement that takes place during provisional disposition proceedings often also has merit for the obligor.

The contents of a compromise settlement in a provisional disposition case is largely the same as in the case of a regular lawsuit. However, in cases where the plaintiff seeks for an injunction, the defendant may agree to a provisional compromise for a temporary stay.

There is no trial or hearing as to the amount of damages in a provisional disposition case, but in cases where a judgment in favor of the claimant is foreseen the compromise settlement often also includes the payment of damages. In a trial for provisional disposition the obligor does not have a duty to produce materials relating to the amount of damages but when taking into consideration the merits of a compromise there are many cases when those materials are presented voluntarily, so even in a provisional disposition case an agreement can be formed as to the amount of settlement money.

## 5. Voluntary In-Court Settlements (Part 3 - Specialized Mediation for Intellectual Property)

(1) Meaning of Specialized Mediation for Intellectual Property

In April of 1998 specialized mediation for intellectual property was inaugurated in the Tokyo District Court. This is a type of mediation which the court can initiate after a lawsuit is filed. Following is an explanation of the points in which it differs from the usual mediation.

(i) The mediation panel is composed of a total of three persons: a chief mediation judge and two mediation commissioners, and out of these the chief mediation judge in charge is the very chief judge of the Intellectual Property Department that handled the litigation.

(ii) The mediation commissioners are made up of lawyers and patent attorneys who are expert in intellectual property cases.

In this way, specialized mediation for intellectual property has the merit of allowing the parties to devise a flexible solution that is advantageous to both of them because of such points as: (a) the mediation is assured of having fairness and impartiality; (b) persons in the legal profession who have rich experience in intellectual property trials and in other areas are appointed as mediators; (c) patent attorneys who have superior expertise in technology undertake the resolution of the case as mediators; (d) the resolution may not be limited to the matter in litigation; rather, the search for a broad-scale resolution can be expected (such as cross-licensing, comprehensive consents, and agreements on future changes to products); and (e) trade secrets are maintained.

As for the achievement of settlements, the rate for the successful effectuation of mediation is high, approaching approximately 80% of all cases.

(2) Progression of Specialized Mediation for Intellectual Property

In order for specialized mediation for intellectual property to advance smoothly the following things take place. That is, so that a plan for settlement can be devised at an early stage after the case has been assigned to mediation, after the assignment of the

case the judge who was in charge of the lawsuit for the infringement of intellectual property rights explains to the mediation commissioners, by a memorandum or orally, the details of the case and his or her tentative impressions. The fact that the chief judge expresses to the mediation commissioners his or her own opinion regarding policy for the direction of the mediation lends efficacy to the smooth advancement of the mediation proceedings.

The chief judge, positively grasping the circumstances of the progression of the mediation, carefully liaises and makes adjustments with the mediation commissioners, and states his or her own view when asked from the mediators, . Positive planning of how to reach a mutual understanding of intent between the intellectual property rights chief judge and the mediation commissioners is a characteristic factor in advancing the mediation. Being able to plan for the progression of the case in this way is one of the advantages of establishing the mediation system within the courts.

**6. Chief Causes of Obstructions to Reaching In-Court Settlements**

As mentioned above, voluntary in-court settlements have many merits. It should be kept in mind that if the parties want to aim for a final legal settlement, they should avoid any actions that may cause difficulties in reaching a voluntary settlement or amplify the dispute. Considered from that viewpoint, the following things should be taken in account.

Firstly, generally if the outlook of the case by the partners before the lawsuit is filed is greatly different from that after the filing, when facts have been clarifiedthrough trial, then the resolution of the dispute becomes difficult. That is to say, if before the action is filed, a party repeatedly hears from its attorney that the prospect is for a winning case, then if that party is presented by the court with a settlement proposal that is premised on it having a losing case, the party may not be able to cope with that. In such a case, it is common for the court to directly give the parties an explanation, but even that has its limits. Therefore, before the suit is filed the attorney should sufficiently explain to his client the special characteristics and the difficulties involved in intellectual property right litigation.

Secondly, if emotional problems arise between the parties, resolution of the dispute may become difficult.

On the filing of a legal action, if the mode of the defendant’s infringement and the

fact of the bringing of the lawsuit are widely reported, that will invite a backlash from the defendant, and by the way in which that is publicized there may be some damage to reputation. This possibility should be taken into consideration, since it could create difficulties in a voluntary settlement and the chance for an early resolution could be lost.

Thirdly, in the process of negotiations for a voluntary settlement if important information is not communicated, a final settlement will be hindered. Sometimes in the progress of the negotiations, just at the time when it appears that an agreement will be reached, one of the parties brings up new facts. In an extreme case, there may even be new allegations of the existence of other modes of infringement. In such a case, the parties must commence the negotiation all over again, and the voluntary settlement attempt may end in failure.

**7. Legal Dispute Resolutions Out of Court (ADR)**

(1) Preface

There are a various types of ADR organizations that deal with the out-of-court resolution of disputes concerning intellectual property rights, such as the Japan Intellectual Property Arbitration Center. Since it is better to have voluntary settlements in disputes between businesses, these types of applications of ADR are desirable. In ADR, normally lawyers, patent attorneys, scholars and other persons with expertise in the various fields of intellectual property are appointed as mediators or arbitrators, and they engage in the mediation, arbitration or other form of ADR.

(2) Benefits of ADR

It is of use to compare ADR with court resolutions (including both judgment and in-court voluntary settlements). With respect to legal disputes concerning intellectual property rights, ADR and court proceedings have a mutual supplementary relationship. The value of the existence of ADR can be said to be the highest in the fields in which court proceedings are not necessarily suitable. That being the case, ADR has advantages in the following types of situations.

First, in cases where cost performance cannot be obtained in court proceedings, ADR is effective. The minimum amount of the expenses in utilizing court procedures is fairly high. Even with provisional disposition, where the procedural expenses are

comparatively low, the costs become high when taking into account lawyers' fees, the costs of investigations and so on. (However, a litigation relief system is being established for right holders who cannot prepare for litigation expenses.) ADR can be said to have many merits with respect to minor cases and disputes for smaller amounts, as an easy substitute means of resolving disputes.

Second, ADR is also effective when secrecy cannot be maintained in court proceedings. That is, since court proceedings are open to the public, secret matters may be publicly revealed. Of course now in court processes a system is being put in place to deal with requests for the protection of secrets, with such things as (a) procedures for the prohibition of perusal of documents submitted to the court; (b) in-court mediation procedures; (c) procedures for the preparation of the pleadings and (d) agreements among the parties to preserve secrets, but these measures cannot be perfect in court proceedings which, as a rule, are open to the public. In particular, parties are sensitive to disclosure of facts in the following types of cases: (a) in which trade secrets, technological secrets, know-how or the like have been infringed; (b) in which an investigation of the evidence is necessary, including of matters for which public disclosure would cause inconvenience; (c) in which there are matters that are not secrets but which a party wants to keep the whole world from knowing about and (d) in which the effect of a lost lawsuit would be devastating. Since in ADR disclosure of these kinds of secrets can be avoided, it has merit as a way to effect the legal resolution of disputes.

**8. Conclusion - Promotion of Use of ADR**

Next I want to mention some points that should be heeded in order to ensure that ADR fulfills the expectations of society and the trust of its users.

Looking at past examples, public expectation for the setting up and application of ADR in specialized areas of expertise became high when many new types of disputes appeared due to the rapid changes in the structure of society and people's ways of thinking, and the appropriate rules for resolution of these disputes could not be established.

This kind of newly-established ADR that is set up in response to the needs and anticipations of society will try to resolve many legal disputes, including difficult cases for which solutions have not been devised under the existing systems. Through this kind of concrete dispute management, ADR is being evaluated on a number of

different issues, including (a) whether or not the professional expertise of the mediators and arbitrators is sufficient; (b) whether or not the legal knowledge of the mediators and arbitrators is sufficient; (c) whether or not the composition of the panel is biased; (d) whether or not fair proceedings are being conducted; (e) whether or not settlement proposals that are acceptable to society are being presented, even for new types of disputes for which dispute resolution rules have not been established; and (f) whether or not cases for which settlement is not possible can be ended at an appropriate time. In that sense, the tasks of ADR and the mediators and arbitrators who participate in it are large indeed.

If some ADR organizations can find first-rate personnel to serve as mediators and arbitrators and can demonstrate actual results by speedily resolving legal disputes that are difficult to resolve, those organizations will be able to earn the trust of the parties and of society. For this purpose, too, it will be necessary for the mediators and arbitrators who take part in ADR to make efforts to improve their skills so as to be able to resolve difficult disputes.