

Japan

When is filing a patent infringement suit deemed to be a tort?

In a recent decision (*Heisei* 18 (ne) 10040, October 31 2007) the IP High Court held that the filing of a request for a preliminary injunction by the patentee constituted a tort. The patentee was ordered to pay damages to compensate for losses suffered as a result of the lawsuit. It also ruled on the eligibility of a plaintiff to request a declaratory judgment. This chapter discusses the case and considers its implications on strategies for patent infringement litigation.

A patent is a powerful instrument that bestows on the patentee a right to exclude others from specific protected activities. However, this power means that patentees are expected to observe certain rules of behaviour and the law provides for certain checks on this power to prevent abuse.

When bringing action in an infringement suit, a patentee effectively forces the defendant to expend considerable time and money in responding to the allegations of infringement; this can represent a significant burden whose expenditure may not always be justified. In particular, the validity of a lawsuit may come into question when the suit is used to create circumstances favourable to a patentee that makes no serious effort to consider the validity of the patent and the circumstances of infringement.

Facts

Semiconductor Energy Laboratory (SEL), a Japanese company, owns Japanese Patent 3,241,708 for an active matrix liquid crystal display device (LCD). Its main source of income in the LCD business is royalties from licensed patents. Chi-Mei Optoelectronics (CMO), a Taiwanese company, made and sold liquid crystal modules, forming the core portion of LCDs, in Taiwan. Tatung bought the liquid crystal modules, used them to make LCDs and exported them to Japan. Seiyu Corporation purchased the LCDs and sold them in Japan.

SEL filed suit against Seiyu requesting a preliminary injunction against the sale of the LCDs. As a result, Seiyu

discontinued sales of the LCDs and returned the remaining LCDs to Tatung. SEL held a press conference announcing that a lawsuit had been filed against Seiyu and explaining its allegations, which were published by the press. CMO filed suit against SEL, requesting an injunction against further public allegations of infringement, damages and a declaratory judgment that SEL did not have the right to demand an injunction against Seiyu's sale of the LCDs.

Issues

The main issues in the case were as follows:

- Did the LCDs sold by Seiyu infringe SEL's patent?
- Was CMO eligible to request a declaratory judgment under these circumstances?
- Did SEL's filing of a request for preliminary injunction and subsequent press release constitute tortious acts?
- Was CMO entitled to receive damages from SEL?

Findings

On these questions, the court held as follows.

Did the LCDs sold by Seiyu infringe SEL's patent?

No. The specification lacked an enabling disclosure and the patented invention lacked an inventive step because it was only a combination of prior art. Furthermore, the LCDs sold by Seiyu did not have an 'oxide semiconductor film' with a high resistance, as claimed.

Was CMO eligible to request a declaratory judgment under these circumstances?

No. Even if a declaratory judgment were made in response to CMO's request, it would have no legally significant effect on the relationship between SEL and Japanese retailers and SEL would still have the right to file for an injunction. If such a declaratory judgment were

to cause SEL to refrain from filing suit against the Japanese retailers, that would merely be an incidental effect. CMO could not effectively benefit from a declaratory judgment to the effect that SEL had no right to demand an injunction against Seiyu. Therefore, CMO was not eligible to request such a declaratory judgment.

Did SEL's filing of a request for preliminary injunction and subsequent press release constitute tortious acts?

SEL's acts constituted tortious acts, but were not acts of unfair competition.

Fundamental rules

In general, the filing of a lawsuit seeking resolution of a legal dispute is a legitimate act and does not constitute a tort. However, where a case is so lacking in good faith as to upset the original objectives of the legal system (eg, where the cause of action asserted by the plaintiff lacks any substantial factual or legal justification and the plaintiff was aware of this fact or could have easily known this fact, but nevertheless proceeded to file suit), the act of filing suit itself can constitute a tort (Supreme Court; *Showa* 60 (o) 122, January 26 1988). This ruling also applies to requests for preliminary injunction.

Furthermore, even if the situation is not exactly as described above, the filing of a request for preliminary injunction can constitute a tort if the preliminary injunction is requested against a customer of the plaintiff's competitor on the pretence that it represents an enforcement of legitimate rights, but in fact aims to damage customers' trust in the eyes of its customers.

Whether a request for an injunction constitutes a tort must be determined on the basis of consideration of all the facts, including:

- the history of negotiations between the parties before the request was filed;
- the defendant's reactions during the negotiations; and
- the expected reaction to the filing of the request for preliminary injunction.

Request for preliminary injunction

SEL's evaluation of the validity of the patent, which it performed before filing the request for a preliminary injunction, was inappropriate, as demonstrated by the fact that the lack of an enabling disclosure was overlooked. Although SEL asserted that the lack of validity of the patent was not obvious in view of the fact that the Japanese Patent Office itself had acknowledged

its patentability, the lack of any serious effort to make a thorough evaluation of the validity of the patent was unjustifiable.

Furthermore, despite requests by CMO, SEL declined to clarify which claims it considered to be infringed by which parts of the products being sold, even though that information would have been essential to resolution of the dispute. Instead, SEL merely sent a list of 40 patents to CMO stating that CMO should be able to perform the necessary analyses. However, the '708 patent based upon which SEL requested the preliminary injunction against Seiyu was not among those listed.

SEL knew that upon filing a request for a preliminary injunction, Seiyu would be likely to pull the disputed LCDs from its shelves and discontinue its sales because Seiyu did not have the capability to assess a patent infringement case of this nature properly. In addition, SEL was aware that the press would make its claims public when SEL released the information.

In view of these facts, it was apparent that SEL's actions, while ostensibly for the purpose of protecting its patent rights, were actually aimed at damaging the trust that customers had in CMO in order to gain greater negotiating leverage; therefore, the actions were lacking in good faith and were in fact tortious. On the other hand, the actions could not be considered to constitute dissemination of false allegations as provided by the Unfair Competition Prohibition Law, and therefore did not represent unfair competition.

Press conference

The press conference was held to give the public the impression that the LCDs sold by Seiyu infringed SEL's patent, and was not necessary for the fair enforcement of its patent right; therefore, it too lacked good faith and was tortious.

However, the press release could not be considered to be a dissemination of false allegations as defined by the Unfair Competition Prevention Law.

Was CMO entitled to receive damages from SEL?

Yes. The Intellectual Property High Court found the series of acts performed by SEL to be tortious and ordered SEL to pay compensatory damages amounting to ¥20 million (approximately \$200,000).

Lessons for the future

Patentees must be aware that filing a patent infringement suit may be held to constitute a tort if the act is found to be aimed at damaging the relationship between a competitor and its customers, and thereby improving the patentee's position.

Filing a patent infringement suit could be deemed to constitute tortious conduct in the following cases:

- No serious effort was made to assess the validity of the patent and the possibility of infringement before filing the lawsuit, as a result of which the patentee overlooked the fact that the patent was invalid and/or the products in question did not infringe.
- The assertions as to which products infringe which patents and why are not clearly explained to the alleged infringer.
- A lawsuit is filed against a customer of a competitor despite the evidence of another party with which the dispute could have been resolved at a more basic level.
- A press release is issued in order to prompt a serious reaction, such as discontinuance of sales of allegedly infringing products, even if the released information contains nothing more than the fact that a lawsuit has been filed and the allegations made by the plaintiff.

Therefore, any patentee planning to file an infringement suit should consider the following before taking action:

- The patentee must be careful to evaluate the validity of the patent and the circumstances of infringement in a fair and objective manner.
- The patentee must provide a clear explanation of the case for infringement to the alleged infringer in order to give the latter a fair opportunity to consider the circumstances.
- When suing the customer of a competitor, the patentee must make a good-faith effort to bring the dispute to a resolution, rather than simply attempting to improve the patentee's standing.

The above also applies to press releases.

A manufacturer producing products outside Japan that does not make, sell or use the products in Japan is ineligible to request a declaratory judgment regarding the right of a Japanese patentee to request an injunction against Japanese distributors or users.

Yoshitaka Sonoda has a technical background in physics and electronics and received his PhD from the University of Tokyo for his studies on transient vibration of non-linear systems. He is fluent in both English and French, skills that were acquired through his experience as a researcher at the Saclay Nuclear Research Centre of the French Atomic Energy Commission and his frequent visits abroad. Mr Sonoda entered the IP field in 1987.

Yoshitaka Sonoda
Partner
Tel +81 3 5339 1093
Email ysonoda@patents.jp
Sonoda & Kobayashi
Japan

