

JAPAN

Hiroyuki Tanaka, Masafumi Masuda and Masahiro Ueda¹

I OVERVIEW

One of the most common types of disputes involves systems development contracts (i.e., systems development disputes). In a typical dispute, the user usually asserts that the vendor did not complete the system or there are defects in the system provided, and either refuses to pay the vendor's fees or demands a refund of fees already paid. In contrast, the vendor usually asserts that the development and provision of the system were completed and that the user must pay additional fees if further improvements to the system are required, claiming that improvements are not covered by the original contract. In some cases, the vendor performs additional systems development work not covered by the contract and then claims additional fees from the user.

Another common type of dispute relates to intellectual property (IP). If a licensee uses a system (software) outside the scope of the licence agreement, the licensor may seek injunctive relief or compensation for damage caused by the IP infringement. Third-party IP right holders may also seek similar remedies for infringement against the licensee, in which case there is likely to be a dispute between the licensor and the licensee for indemnification by the licensor.

In recent years, the number of cases involving requests for disclosure of the identification information of the sender has been increasing. These are lawsuits relating to infringement of rights (e.g., copyright infringement or defamation) committed through the internet, in which the plaintiff demands that the internet service provider disclose the information (e.g., name and address) held by the provider about the infringer. These lawsuits are a preliminary step in bringing an action against an anonymous infringer of copyrights or other rights.

II YEAR IN REVIEW

Under Article 105-2-11 of the revised Patent Act – in effect as of 1 April 2022 – a system for soliciting third-party opinions, known as *amicus* briefs in Japan, is available in patent litigation. In litigation pertaining to infringement of patent rights or exclusive licences, the court may, when it deems necessary upon motion of either party, hear the opinions of other parties. It may also request the public at large to submit a document stating its opinions on the application of the law and other necessary matters concerning the case in question, within a reasonable time period. However, this system is available only to the courts specified

¹ Hiroyuki Tanaka and Masafumi Masuda are partners, and Masahiro Ueda is a counsel at Mori Hamada & Matsumoto.

in each item of Article 6, Paragraph 1 of the Code of Civil Procedure (currently, the Tokyo and Osaka District Courts) and the Intellectual Property High Court as the appellate court of these courts.

On 28 April 2021, the revised Act on the Limitation of Liability for Damages of Specified Telecommunications Service Providers and the Right to Demand Disclosure of Identification Information of the Sender² was enacted and is due to come into effect on 1 October 2022. The amendment contained therein will add a new procedure for demanding the disclosure of the identification information of the sender to provide more prompt remedies for the infringement of rights on the internet than the current procedures allow. The revised law introduces a new procedure for petitioning to order the disclosure of the identification information of the sender, which enables demands for the disclosure of such information to be made to both content and access providers in a single procedure. It also clarifies that, if the sender must be identified, it is possible to demand the disclosure of the identification information of the sender at the time of the login that is substantially related to the infringing information. The number of court cases of this type in Japan is increasing annually and thus we should closely monitor future practice trends influenced by this amendment.

III CLAIMS AND REMEDIES

Common causes of action for technology disputes include tort based on infringement of various IP rights, such as patents and copyrights, and defaults on contractual obligations. In the case of tort and default, remedies include damages. In addition, in the case of infringement of IP rights, the plaintiff may seek an injunction.

For example, for IP disputes where the licensor has the relevant IP rights relating to a system (software), whether a claim is merely for a violation of the licence agreement or constitutes an IP infringement would depend on the nature of the conditions claimed to have been breached. At a minimum, if a licence agreement is terminated because of breach, the claim is deemed to be for IP infringement, in which case, the licensor may seek injunctive relief and damages. In that case, the infringement must be established and, in seeking compensation for damages, the licensor must establish either:

- a* the damage and a causal relationship between the IP infringement and the damage; or
- b* the basic facts that support the application of a contractual provision for the presumption of damage under applicable IP laws.

Negligence is presumed for patent infringement but not for copyright infringement.

If there is a dispute between the licensee and a third-party IP holder, the licensee may seek indemnification from the licensor if the licensor warranted that the use of the relevant system (software) did not infringe the IP rights of third parties. In that case, the licensee must establish the breach of the warranty, the damage (including fees incurred), and a causal relationship between the breach and the damage.

A Japanese court will decide in favour of the plaintiff if the plaintiff successfully proves its claim. The court will typically grant injunctive relief (prohibiting the defendant from continuing the infringement) or order the defendant to pay damages, or both.

² Known as the Provider Liability Limitation Act.

The court awards damages to the extent that the plaintiff is able to successfully establish that the damage suffered was caused by the defendant's breach of a contractual obligation or by tort. Punitive damages and statutory damages are not awarded.

However, statutory damages may be available to a plaintiff who claims that damage was caused by patent or copyright infringement. There are special rules that enable an IP right holder to easily demonstrate the applicable amount of compensation to be awarded as damages. If the defendant is selling infringing products, the amount calculated by multiplying the number of infringing products that the defendant sold by the amount of profits per product that the plaintiff would have sold had there been no infringement is presumed to be equivalent to the cost of the damage suffered by the plaintiff, subject to a limit equal to an amount proportionate to the plaintiff's ability to work. However, if there are circumstances that would make it impossible for the plaintiff to sell the number of products equivalent to those actually sold by the defendant, a corresponding amount would be deducted from the result of the foregoing calculation. If the defendant benefits from an infringement, the amount of the profits received by the defendant is presumed to be equivalent to the cost of the damage suffered by the plaintiff. An amount equivalent to the licensing fees that should have been paid to the plaintiff is also presumed to be equivalent to the cost of the damage suffered by the plaintiff.

Under the Code of Civil Procedure, the losing party is required to bear the costs of the litigation. However, although costs for this purpose constitute the fees and other expenses paid by the prevailing party to the court, the attorney's fees incurred by the prevailing party are not included, thus the amount is usually moderate.

In a suit for damages, including a patent and copyright infringement lawsuit, attorneys' fees may be awarded as a component of damages. However, the actual attorney's fees incurred by the prevailing party are not admissible. In practice, an amount equal to 10 per cent of the cost of the damage caused directly by the infringement is added as damages equivalent to attorneys' fees.

The contracting parties may agree in advance a clause specifying the amount of liability for damages or an exemption or limitation of liability for damages in the event of a breach of obligations. However, in Japanese court precedents, such limitation clauses have been found to be inapplicable in cases where the breach is made intentionally or by gross negligence. In addition, a clause that exempts or reduces liability for damages in the event of a breach of obligations is subject to anti-competition law. Specifically, if one party abuses its superior bargaining position and forces the other party to agree to a clause that is considered unfair in light of normal business practice, this may constitute a violation of anti-competition law as an abuse of a superior bargaining position. As such, this conduct may be subject to an order from the Japan Fair Trade Commission to cease and desist or to pay a surcharge.

IV COURTS AND PROCEDURES

Generally, the Code of Civil Procedure allows parties to agree in advance the court of jurisdiction at first instance. For example, a contractual provision stating that the Tokyo District Court shall have exclusive jurisdiction as the court of first instance is valid. However, under the Code of Civil Procedure, the Tokyo District Court and the Osaka District Court have exclusive jurisdiction over actions involving patent rights, as well as copyrights in computer programming work products. Certain divisions of the foregoing district courts specialise in IP disputes (the IP Divisions).

Both the Tokyo District Court and the Osaka District Court have special procedural rules for IP disputes. In particular, for patent infringement disputes, both courts have a Well-Organised Proceedings Model to expedite court proceedings.

For example, the Tokyo District Court IP Division model is as follows:

- a* first date for oral arguments: the defendant submits a summary of the defendant's defence;
- b* first date for preparatory proceedings: the defendant submits: (1) an argument for the identification of the alleged infringing product or the method and the range of its technical scope; and (2) a defence of invalidity;
- c* second date for preparatory proceedings: the plaintiff presents its counterarguments to the defendant's submissions (1) and (2) in point (b) above;
- d* third date for preparatory proceedings: the defendant presents its counterarguments to the plaintiff's counterarguments;
- e* fourth date for preparatory proceedings: the plaintiff supplements its counterarguments to the invalidity defence and both parties give a presentation explaining the technologies (the technical briefing); and
- f* fifth date for preparatory proceedings: the court informally discloses its provisional determination as to whether or not the alleged infringing product or method infringes. If the determination is non-infringement, the court will close the hearing and recommend that the parties settle the case. If infringement is found, the court will move to hear arguments for damages.

i Pre-actions steps

There are no mandatory pre-action steps, including for mediation. However, in system development disputes, at some point after the lawsuit has been filed, the court will often recommend that the parties refer the case to mediation. In practice, it is quite common for the parties to agree to undertake mediation according to the court's recommendation.

In contrast, mediation is not a common method for resolving IP disputes.

ii Interim remedies

Under the Civil Provisional Remedies Act, a plaintiff can file provisional remedy proceedings separately from the litigation proceedings. A provisional remedy proceeding is handled by a different judge from the judge in charge of the litigation proceedings. In technology disputes, the plaintiff may request the following orders, depending on its claim.

- a* Order for provisional seizure: a plaintiff claiming a payment of money may request an order for provisional seizure. The court will issue the order if it concludes that the plaintiff has established prima facie evidence of its right and that preservation of that right is necessary (e.g., the defendant is about to dispose of its assets). This order prohibits the defendant from disposing of any of the assets specified by the plaintiff.
- b* Order for preliminary injunction (order of preliminary disposition that determines a provisional status): a plaintiff claiming injunctive relief may request an order for a preliminary injunction. The court will issue the order if it concludes that the plaintiff has established prima facie evidence of its right and that preservation of that right is necessary (e.g., the plaintiff would suffer significant damage because of the commencement or continuation of the infringement by the defendant). This order prohibits the defendant from doing any of the acts of infringement specified by the

plaintiff. In general, there is a high standard that the plaintiff must meet to prove the foregoing requirements because the plaintiff is able to obtain a result that is, in effect, similar to a final judgment.

If the allegations or evidence contain trade secrets, a litigant may file a motion to restrict access to case records to prevent third parties from viewing them.

In addition, in a patent lawsuit, the court may, on the motion of a party, order confidentiality obligations to be imposed on a party or its agent with respect to trade secrets that have been or will be filed (a confidentiality protection order). Moreover, with respect to the obligation of a person to submit documents, an *in camera* inspection applies, whereby only the court can inspect the motioned documents to ascertain the existence of a 'legitimate reason' under the Patent Act.

As for contractual disputes, the statute of limitations applicable to claims applies from the earlier of:

- a* five years from the time when the claimant comes to know that it is possible to bring a claim (for example, five years from being told by a lawyer that he or she can bring a claim) or when the claimant becomes aware of the cause of action; and
- b* 10 years from the time when it becomes objectively possible to bring a claim.

The statute of limitations may be extended by six months by bringing a claim without the need for recourse to court proceedings. An agreement between the parties to negotiate is a permitted reason for the suspension of the statute of limitations, provided that the agreement is for a period of no more than one year, renewable up to five years in total.

As for non-contractual disputes such as IP disputes, with respect to compensation for damage, the statute of limitations for claims is the earlier of three years from the time when the claimant becomes aware of suffering damage and the infringement, and 20 years from the occurrence of the infringement.

For injunctive relief, no statute of limitations applies, provided that the IP infringement continues.

As for technology disputes such as IP disputes, the average duration of litigation has been gradually decreasing and is currently around one year. As explained above, the courts established the Well-Organised Proceedings Model for the purpose of expediting court proceedings for patent lawsuits, but such suits tend to take longer because technical matters are involved. Also, system development disputes often involve an extremely wide range of allegations and take an enormous amount of time to sort out, with many cases taking three to five years to complete. Statistical data specifically for IP disputes is published by the courts.

V EVIDENCE AND WITNESSES

There is no mandatory collection and submission of evidence, such as discovery, under the Japanese court system.

However, a court may, at its own discretion or on the motion of a party, preserve related documents, including, but not limited to, by copying documents and taking photos (the preservation of evidence procedure). In addition, the court may, upon a party's motion, order anyone to submit a document that relates to the facts to be proven in the litigation (an order to submit documents). Under the Code of Civil Procedure, a person in possession of a document may refuse to submit that document if it has been prepared exclusively for

the use of that person or involves a technical or professional secret. However, in a patent lawsuit, a person cannot refuse unless he or she has a legitimate reason for refusing to submit the document.

Furthermore, the 2019 amendment to the Patent Act created an inspection certificate system in relation to patent lawsuits, providing for the on-site inspections of plants and other sites of suspected infringing third parties by neutral technology experts, with the findings from the inspections and any other necessary research being subsequently presented to the court.

Attorney–client privilege and similar protections are not available in Japan. With respect to a court order to submit documents, it is unclear if an attorney–client communication falls under ‘a document prepared exclusively for the use of the person in possession’, which is exempted from the order. However, since there is no discovery procedure in Japan and attorney–client communication is not subject to mandatory disclosure, the necessity of having separate attorney–client privilege to protect client confidentiality is relatively low. In general, therefore, the absence of privilege is not a material detriment.

Under the Code of Civil Procedure, experts on both technical and factual matters may be presented as witnesses. The court determines if expert witnesses are necessary and appoints them at its own discretion. In practice, each party applies to present and examine expert witnesses.

Under the Code of Civil Procedure, if it finds it necessary to clarify a matter related to the litigation or to create a framework for the smooth progress of the proceeding, the court may hear the opinions of the parties and have a ‘technical adviser’ involved in the proceedings. In practice, it is common for the court to appoint an adviser upon the petition of a party. Technical advisers are not witnesses and their statements do not constitute evidence.

VI ENFORCEMENT

Under the Civil Execution Act, the plaintiff can file for a civil enforcement proceeding if the defendant does not pay money when due or does not cease infringing acts in accordance with the judgment. In technology disputes, the plaintiff may request the following types of execution depending on its claim.

- a* Compulsory execution for a payment claim: the plaintiff may sell the defendant’s assets (e.g., real estate) in an auction operated by the court and receive the proceeds from the purchaser or collect on behalf of the defendant a claim held by the defendant (e.g., bank deposits) and receive payment with respect to that claim from the debtor.
- b* Indirect compulsory execution: the court may order the defendant to pay the plaintiff a certain amount of money determined by the court if he or she does not cease the infringement. This is the mechanism commonly used to stop infringement, namely through monetary pressure.

As for rules and practices governing the recognition and enforcement of foreign arbitral awards, Japan is a signatory state to the New York Convention,³ therefore an award from another signatory state is enforceable in Japan.

3 United Nations Convention on the Recognition and Enforcement of Foreign Arbitral Awards (New York, 10 June 1958).

VII ALTERNATIVE DISPUTE RESOLUTION

In technology disputes, arbitration (run by administrative or civil organisations) and mediation (run by courts or the aforementioned organisations) are available.

For instance, for system development disputes, court mediation is relatively common. In a mediation procedure, a mediation committee (usually consisting of a judge, an expert in system development and a private practice lawyer) hears the case and presents a settlement plan to the parties. If the plaintiff files for a litigation proceeding, the court would usually transfer the case to a mediation proceeding (where there will be a different judge in the mediation committee). If the parties do not accept the settlement plan suggested by the committee, the case will be returned to be dealt with in the litigation proceeding.

A foreign company may resort to arbitration run by the International Arbitration Center in Tokyo, where English may be chosen as the arbitration language.

VIII OUTLOOK AND CONCLUSIONS

When there is a data breach incident, the data subjects affected may file a lawsuit seeking compensation for damage in relation to the protection of their personal information. The Act on Special Measures Concerning Civil Court Proceedings for Collective Redress for Property Damage Sustained by Consumers allows for class actions to be filed by consumers. Note that claims allowed under that law are limited to property damage and do not cover compensation for distress caused by data breach incidents. However, the inclusion of data breach incidents within the scope of this act is being discussed. Since this would largely affect those tech companies with great numbers of customers, it is worth paying attention to these possible developments. As a practical matter, it is also noteworthy that a number of data subjects may select the same lawyer to represent them and that the lawyer can file one suit for those data subjects, which can be similar to class action.

HIROYUKI TANAKA

Mori Hamada & Matsumoto

Hiroyuki Tanaka is a partner at Mori Hamada & Matsumoto, admitted to practise in Japan and New York. Hiroyuki's practice areas are data protection, IT and IP. He has extensive experience of handling cases involving commercial disputes, such as IP infringement disputes and software litigation, and in advising foreign clients on Japanese data protection laws and global data compliance. He is engaged in domestic and international licensing of IP and also handles various matters involving information management. He is familiar with global data protection regulations, including the GDPR and the CCPA, and helps Japanese clients with global data protection compliance by working closely with local counsel. He has authored and co-authored a number of articles and books on contracts and disputes regarding system installation, as well as IP and data protection. He was recognised as one of the best lawyers in Japan in the technology law field in 2022. He was also recognised as a notable practitioner in the IP field by *Asialaw Profiles* and *Asialaw Leading Lawyers* in 2022 and as a Thought Leader for Japan in *Who's Who Legal: Data 2021*. He has LLB and JD degrees from Keio University, and an LLM in competition, innovation and information law from New York University School of Law.

MASAFUMI MASUDA

Mori Hamada & Matsumoto

Masafumi Masuda is a partner at Mori Hamada & Matsumoto, admitted to practise in Japan and New York. He utilises his background in engineering to handle dispute resolution and transactions involving a variety of technology-related issues. He has advised extensively on legal issues in numerous IT and digital matters across various industries – in particular, gaming, metaverse and web services – and is now leading such emerging practices at his firm as head of the IT practice group. He has written extensively on copyright and digital content issues, including *The NFT Textbook* (co-editor, Asahi Shimbun Publications, 2021); *Copyright and Rules for Internet Business*, 2nd edn (co-author, CRIC, 2020); *The Google Books Case: Analysis and Evaluation of Court Documents* (co-author, Shojihomu, 2016); and *Digital Content Law and Policy* (co-author, Asahi Shimbun Publications, 2012). He has also given numerous lectures and presentations. He earned his bachelor of engineering degree from the University of Tokyo (2004), his JD from Chuo Law School (2007) and an LLM in law, science and technology from Stanford Law School (2016). After studying at Stanford, he worked at Kirkland & Ellis LLP in Chicago and Mori Hamada & Matsumoto (Singapore) LLP in Singapore. He is also actively working on newly recognised interdisciplinary areas such as fintech. Having served as a drafter for the government until 2020, working on reforming financial regulations in relation to blockchain, he frequently employs his cutting-edge knowledge in blockchain-related cases. He has been recognised as one of the best lawyers in Japan in both the information technology law and the fintech practice fields since 2021.

MASAHIRO UEDA

Mori Hamada & Matsumoto

Masahiro Ueda is a counsel at Mori Hamada & Matsumoto, admitted to practise in Japan and New York. He is engaged in general corporate legal affairs with a focus on litigation and dispute resolution for patent and trademark infringement, and he handles a wide range of

general services related to intellectual property, IT and entertainment, including consultation on numerous types of transactions, such as licence agreements and M&A cases involving companies that hold a large number of intellectual properties. He has extensively engaged in internet-related matters, such as defamation, copyright infringement and requests for disclosure of sender identification information. His extensive writings on intellectual property rights include *Series on Practical Issues of Corporate Litigation: Internet Litigation* (co-author, Chuokeizai-sha, Inc, 2017). He earned his LLB from Kobe University (2009) and an LLM from Cornell Law School (2019). After studying at Cornell, he worked at McDermott Will & Emery LLP, Washington, DC (2019–2020). He also has extensive practical experience in the field of employment and labour law, and was previously seconded to the Ministry of Health, Labour and Welfare as a litigation officer (2016–2018).

MORI HAMADA & MATSUMOTO

16th Floor, Marunouchi Park Building
2-6-1 Marunouchi, Chiyoda-ku
Tokyo 100-8222
Japan
Tel: +81 3 6212 8330
Fax: +81 3 6212 8230
hiroyuki.tanaka@mhm-global.com
masafumi.masuda@mhm-global.com
masahiro.ueda@mhm-global.com
www.mhmjapan.com