INCREASING INTELLECTUAL PROPERTY RISKS ACCOMPANYING OPEN INNOVATION AND MEASURES REQUIRED FOR BUSINESSES

—CASE STUDY OF THE "SELF-CHECKOUT LAWSUIT"—

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SUMMARY

- Currently, patent infringement lawsuits in Japan are structurally advantageous for large corporations with ample capital, and those companies are often criticized in such cases. When developing new products and services by incorporating new technologies and ideas from outside the company, such as through open innovation, it will become increasingly more important to give consideration to intellectual property risks at all times when promoting business.
- Regarding the intellectual property rights (patent rights) of third parties, companies should understand certain issues and take measures depending on each stage of license negotiations, infringement lawsuits, etc.

IT'S EXACTLY LIKE THE PLOTLINE OF "DOWNTOWN ROCKET"— SUBCONTRACTOR SUES FAST RETAILING FOR PATENT INFRINGEMENT

"'We Were Asked to Grant a License for Zero Yen', Says President of Subcontractor Who Sued UNIQLO for Patent Infringement"[1]. The article with this attention-grabbing headline reported that Fast Retailing Co., Ltd. was sued for patent infringement by Asterisk Inc., a company that had a business relationship with Fast Retailing regarding the self-checkout technology used at Fast Retailing's UNIQLO stores. Many negative opinions about Fast Retailing are circulating on social media networks, with posts saying that UNIQLO's image has been tarnished and likening the situation to the storyline in the novel and subsequent TV series "Downtown Rocket[2]."

Is Fast Retailing really a "villain" that crushes small and medium-sized enterprises? Looking at the case from an intellectual property perspective, it can be seen that Fast Retailing is taking appropriate measures based on the available evidence. While there are arguments to be made for both sides and judgement on such infringement claims should be left to the courts, Fast Retailing's image as the villain in this case has grown in non-judicial forums, such as social media, ahead of legal rulings. As such, it can be referenced as an example of reputational risk. In this report, Fast Retailing vs. Asterisk is used as a case study to explain the points to keep in mind regarding the intellectual property rights (patent rights) of third parties when a company conducts business. Since the system differs depending on the country, this report is limited to the Japanese system and does not touch on overseas cases.

[1]Diamond Online article, October 9, 2019, https://diamond.jp/articles/-/21708
[2]A novel series by Jun Ikeido and TV drama series based on the books. The storyline portrays a company that makes it a common practice to crush small and medium-sized enterprises through unscrupulous patent lawsuits.

Summary of the "Self-checkout Lawsuit"

In August 2018, Asterisk, which had a business relationship with Fast Retailing, participated in Fast Retailing's competition inviting proposals for RFID self-checkout systems, but Asterisk's product was not eventually adopted. In February 2019, Fast Retailing introduced a new self-checkout system at its UNIQLO stores.

Around the same time, Asterisk obtained a patent for its self-checkout technology (Patent No. JP6469758, etc.) and continued licensing negotiations with Fast Retailing. However, the negotiations broke down, and in May 2019, Fast Retailing filed a legal request to invalidate Asterisk's patent. In September 2019, Asterisk determined that UNIQLO's new self-checkout system infringed its patent and filed a move for a preliminary injunction against Fast Retailing for the patent infringement. As of March 2021, the court has not ruled on whether UNIQLO's new self-checkout system infringes Asterisk's patent.

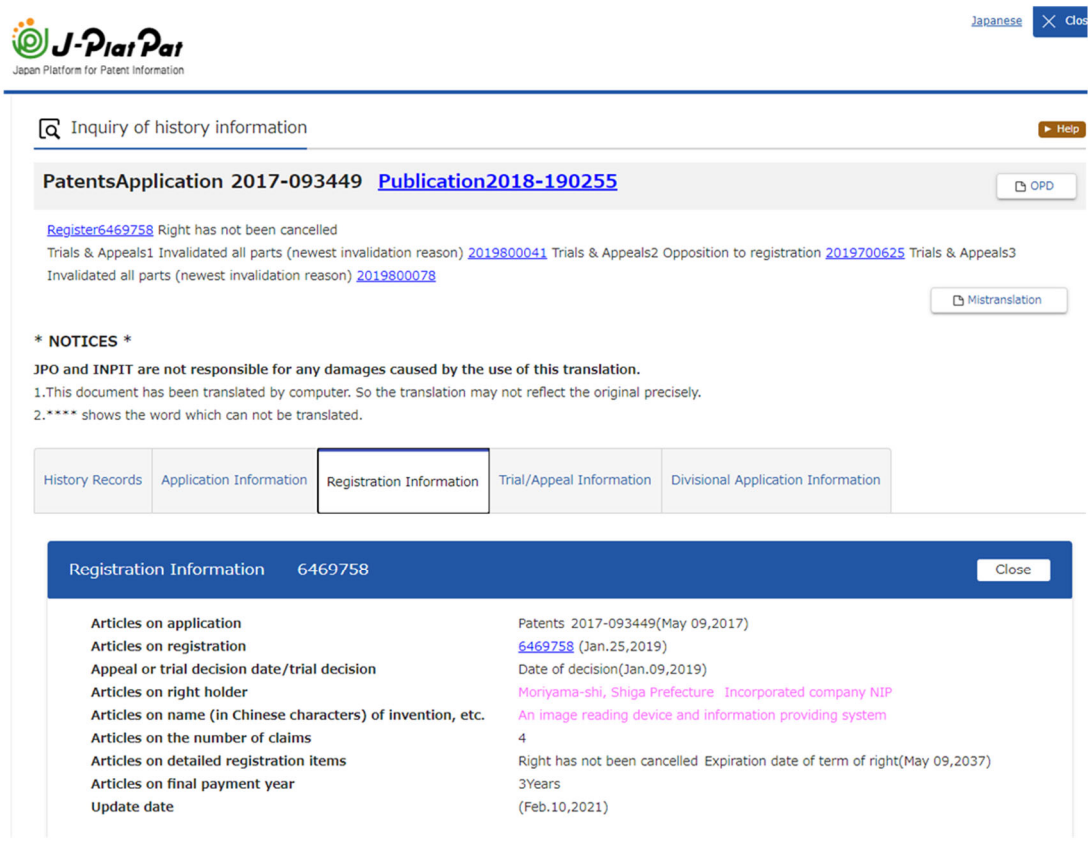
PHASE 1: CONSIDERING THE ADOPTION OF A NEW TECHNOLOGY

— Fast Retailing, which was exploring new self-checkout methods, learned that Asterisk acquired a patent for a new self-checkout system.

First thing to be verified

At the earliest stage of considering the use of a third-party patent, the existence and validity of the patent rights should be confirmed. For example, a search of patents by company name, technology, patent number, etc. can be performed on the patent information platform J-PlatPat (https://www.j-platpat.inpit.go.jp/) (Figure 1). This very first step is important because the patent rights concerned may have expired if 20 years have passed since the application was made (i.e. the valid period of the patent rights has run out), or if the annual maintenance fees have not been paid.

Figure 1: J-PlatPat search platform for patent registration information (Patent No. JP6469758)



Source: Compiled by MGSSI based on J-PlatPat search results

If it can be confirmed that the rights exist and are still valid, the next step is to check whether the scope of the rights extends to the product/service to be introduced. The patent publications include documents on the scope of claims, specifications (detailed description), figures, abstracts, etc., but the scope of patent rights is determined based on the description of the scope of the patent claims[3]. Whether or not the product or service to be introduced is included in the scope of rights of the patented invention is determined by whether or not the constituent requirements expressed in the wording in the claims are satisfied.

For example, the above-mentioned self-checkout patent has four claims, and the details of Claim 1 are as follows.

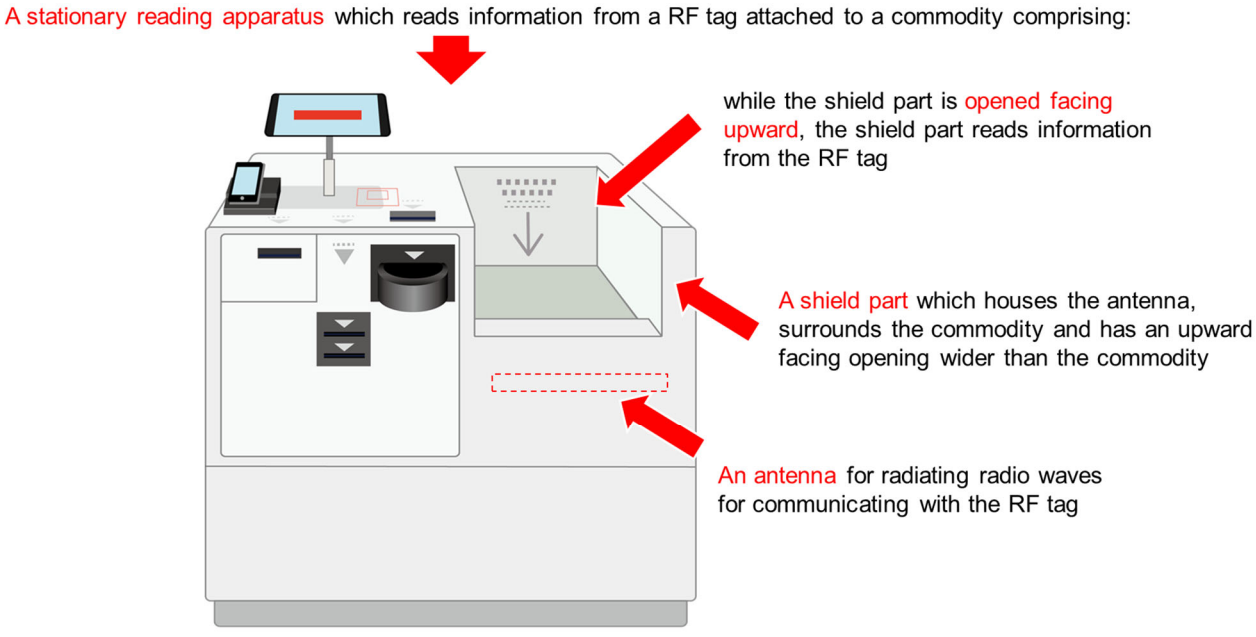
Patent No. JP6469758
[Claim 1]

A stationary reading apparatus which reads information from an RF tag attached to a commodity comprising:
an antenna for radiating radio waves for communicating with the RF tag; and
a shield part which houses the antenna, surrounds the commodity and has an upward facing opening wider than the commodity, wherein
while the shield part is opened facing upward, the shield part reads information from the RF tag.

Source: https://www.j-platpat.inpit.go.jp/c1800/PU/JP-2017-093449/B5721E5515987C61D60FD86FB02C4BCC185EADC44FA18D85DE5A5E796F6DA4ED/10/ja

The constituent requirements of Claim 1 are a "stationary reading apparatus," an "antenna," an "upward facing opening," and a "shield part" (Figure 2). If all the constituent requirements are satisfied, the product/service is judged to be included in the scope of rights of the patented invention, and if even a part of the constituent requirements is not satisfied, it is judged not to be included in the scope of rights[4].

Figure 2: Comparison of the self-checkout system used at UNIQLO stores and the constituent requirements of Patent No. JP6469758 (Claim 1)



Source: Created by MGSSI

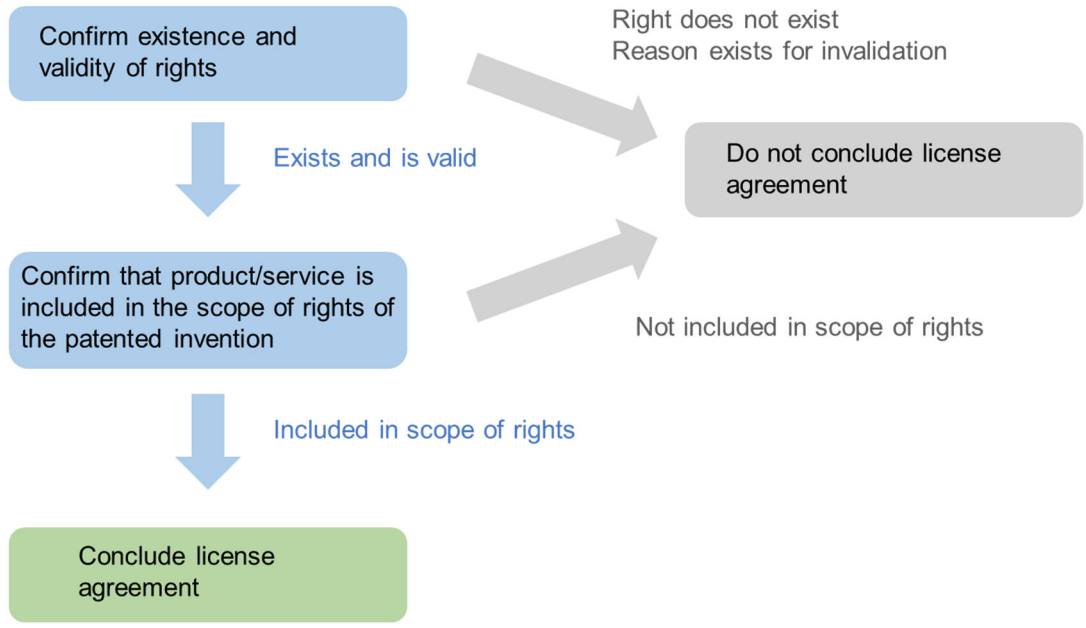
[3]The scope of claims describes the matters necessary for the patent applicant to identify the invention for which a patent is sought, and is classified into claims for each invention. One patent application includes as many inventions as the number of claims listed.
[4]Even if all the constituent requirements of the patented invention are not satisfied, "indirect infringement" or "infringement under the doctrine of equivalence" may become a problem. Since a high degree of specialized knowledge is required to determine whether or not a new product/service is included in the scope of rights for a patented invention, it is preferable to consult with a patent attorney or other such expert.

PHASE 2: NEGOTIATING FOR A LICENSE TO INTRODUCE THE NEW TECHNOLOGY

— Fast Retailing received an offer from Asterisk to negotiate a license for the new self-checkout system.

If a product or service is included in the scope of rights of the patented invention, it is an infringement of the patent right if a third party other than the holder of the patent uses the patented invention in any way as a business without obtaining a license (permission for use). Therefore, if it is determined that the product/service is included in the scope of rights of the patented invention, negotiations will proceed toward the conclusion of a license agreement. If it is determined that the product/service is not included in the scope of rights of the patented invention, the entity introducing the product/service responds to the counterpart that a license agreement is not required (Figure 3). If it is determined that the product/service is included in the scope of the rights of the patented invention, but if there is reluctance toward concluding a license agreement, an investigation may be started to try to identify a reason for invalidation of the patent right. As implied by the terminology, a reason for invalidation would be any reason as to why the patent would be made void, such as the patent right does not involve novelty[5] or an inventive step[6]. A patent right with a reason for invalidation is a "defective right" and will be nullified in accordance with a ruling to that effect in an invalidation trial.

Figure 3: Flowchart of license review process



Source: Created by MGSSI

When concluding a license agreement

There are several elements the licensee (license user) should consider when defining the terms of the contract. One is a special provision of patent guarantee (guarantee of validity of patent right). Some are of the view that if the patent right related to a certain license becomes invalid and even though the patent right will be nullified in that case, the licensee will not be entitled to a refund of license fees already paid to the licensor nor will they be released from the obligation to pay the unpaid license fees. As such, it is in the interest of the licensee to make the effort to incorporate a special provision that clearly states that the licensee will be obliged to pay only as long as the patent right is valid because that may enable the licensee to receive a refund of the paid license fees or to refuse to pay the unpaid license fees.

[5]The invention must be novel. The invention must not be publicly known or described in existing publications or on the Internet prior to the filing of the patent application.

[6]The invention must be not be one that can be easily conceived. For example, a patent cannot be obtained simply by making minor improvements to existing technologies.

The other item for consideration is a special provision for a warranty of non-infringement (the provider of the license warrants that the use of the patented invention will not infringe any intellectual property rights held by a third party). In addition to having the licensor guarantee that the product/service using the patented invention covered by the license does not infringe the patent rights of a third party, this provision can make it the licensor's obligation to cover the cost of compensation in the event a third party files for damages based on an assertion of patent infringement. While these warranty clauses do not ensure full protection, it is important to find a balance so that the license agreement does not favor one side more than the other between the licensor and licensee.

Unfair practices, such as forcing licenses to be granted free of charge, could be deemed "abuse of dominance" under antitrust laws. As unfair business practices in transactions and contracts between large companies and startups are regarded as increasingly problematic, with the Fair Trade Commission conducting investigations into such dealings[7], for instance, care should be taken when contracting as a licensee.

When not concluding a license agreement

If it is determined that a product or service is not included in the scope of rights of a patented invention, it is recommended to prepare evidence, such as a certificate of appraisal of the professional and objective infringement assessments (whether or not the product/service is included in the scope of rights), in preparation for future proceedings. While an expert opinion by a patent attorney or other professionals is not binding in a judicial ruling, it can serve as the basis for asserting an opinion. If a reason for patent invalidation can be established, the patent can be nullified by a trial for invalidation or the like.

As Fast Retailing is reported to have responded to Asterisk's efforts to pursue licensing negotiations with a proposal for a "zero yen license," it is probable that Fast Retailing had discovered a reason for invalidation of Asterisk's patent for its self-checkout system (Patent No. 6469758, etc.). If a reason for invalidation is determined for the patent in question, concluding a license for a fee is also a risk because patent rights could be eventually nullified, such as through a patent invalidation trial. In those cases, it is not uncommon to propose a free license, without initiating a patent invalidation trial.

PHASE 3: PATENT INFRINGEMENT LAWSUIT BEING FILED

— Asterisk filed a provisional disposition move for an injunction against Fast Retailing for infringement of patent rights.

A patent infringement lawsuit originates when a patentee begins judicial proceedings to seek suspension (injunction) of activities by others on claims of patent infringement. In general, most patent infringement lawsuits take a considerable amount of time from the point of filing to stopping infringement. When a petition for provisional disposition is filed, a provisional disposition order is issued as a temporary injunction until a conclusion is reached in the infringement proceedings. A provisional disposition is an effective measure in so far as realizing an early injunction and is often used in practice.

Defense strategies of the accused party in a patent infringement case

Examples of defense strategies for the defendant include "denial of infringement" and "invalidity defense".

The "denial of infringement" assertion alleges that the defendant's product or service is not included in the scope of the patented invention. As described above, the patented invention may be divided into the constituent requirements expressed in the claims, and it may be argued that the defendant's product or service does not satisfy any of the constituent requirements.

The "invalidity defense" argument is a defense in a patent infringement lawsuit where the defendant claims the plaintiff's patent right should be invalidated. In many cases, it is claimed that the patented invention is not novel

[7]Japan Fair Trade Commission's final report on its survey of startups' trade practices, November 27, 2020

or inventive. The invalidity defense argument is put forth in about three-quarters of patent infringement cases[8]. In practice, it is not uncommon for an invalidity defense claim to be submitted concurrently with a petition for a patent invalidation trial. The court will rule on both the claims for "denial of infringement" and "invalidity defense", and if a decision is reached in favor of the defendant, the plaintiff's patent infringement lawsuit will be dismissed.

It is presumed that Fast Retailing also has presented both the "denial of infringement" and "invalidity defense" arguments. In addition, Fast Retailing requested a patent invalidation trial prior to the initiation of infringement proceedings. Of the four claims of the self-checkout patent (Patent No. JP6469758), Claims 1, 2, and 4 were invalidated on the grounds of the inventive step requirement, but Claim 3 was not invalidated in this patent invalidation trial. Following the trial, the scope of rights (Claims 1 + 3; Claim 1 is included because Claim 3 quotes Claim 1) was revised as described below.

Patent No. JP6469758
[Claim 1 (after revision)]

A stationary reading apparatus which reads information from an RF tag attached to a commodity comprising:
an antenna for radiating radio waves for communicating with the RF tag; and
a shield part which houses the antenna, disposes to inside of a housing with upward opening, surrounds the commodity and has an upward facing opening wider than the commodity, wherein
while the housing and the shield part are opened facing upward, the shield part reads information from the RF tag.

[Claim 3]

The reading apparatus according to claim 1 or claim 2, wherein the shield part comprises a radio wave absorbing layer which absorbs the radio wave, and a radio wave reflecting layer which reflects the radio wave formed outside the radio wave absorbing layer.

Source : https://www.j-platpat.inpit.go.jp/c1800/PU/JP-2017-093449/B5721E5515987C61D60FD86FB02C4BCC185EADC44FA18D85DE5A5E796F6DA4ED/10/ja

The scope of rights is narrower than at the time of registration in that the revision even specifies the configuration of the shield part. However, Fast Retailing apparently thought all of the claims could be invalidated, so the outcome of the invalidation trial is a little unfavorable for the company. Going forward, assessments will be made whether or not the shield part of the self-checkout system satisfies the constituent requirements of Claim 3 above, and if it is determined that the requirements are satisfied, it is expected that the case will result in either a court-mediated settlement, design change of the self-checkout system on the Fast Retailing side, or other solution.

In February 2021, Asterisk transferred the contested self-checkout patent (Patent No. JP6469758, etc.) to NIP Corporation (Moriyama City, Shiga Prefecture). In its press release[9], the company stated, "We decided to transfer the patent because we have resolved that business continuity and expansion are our top priorities".

CONCLUSION: PATENT INFRINGEMENT LAWSUITS AND REPUTATIONAL RISKS

From the perspective of those who are well versed in intellectual property matters, it is presumed that Fast Retailing is taking a common, conventional approach in the handling of the self-checkout patent lawsuit. The clamor of negative opinions toward Fast Retailing on social media could in part reflect the dissatisfaction with Japan's patent infringement lawsuit proceedings.

[8]Statistics Regarding Patent Infringement Cases (Tokyo District Court, Osaka District Court: 2014-2019), Intellectual Property Rights Divisions of the Tokyo District Court and Osaka District Court.
(https://www.ip.courts.go.jp/eng/vc-files/eng/2020/2019_e_sintoukei_h26-r1.pdf)
[9]Press release reporting the transfer of the RFID-related patent (Patent No. 6469758, etc.) and notice regarding the company's continuous provision of products and services, February 12, 2021

Lawsuits cost money and labor, and the longer the litigation, the greater the debilitating impact on small and medium-sized enterprises. By the time the plaintiff can obtain a decision in its favor, its financial strength may be exhausted, and it is not uncommon for the plaintiff to be forced to reach a settlement at a discounted amount. In addition, even if infringement is ultimately determined, the amount of damages awarded in Japan is much less than that in the US. In other words, it can be said that, in Japan, a large company with ample capital has an advantageous position in disputes related to patent infringement. In extreme cases, a major company could choose not to get involved in licensing negotiations, despite knowing that its activity conflicts with a patent, and carry over the issue into a prolonged battle through litigation and, as a result, win a settlement at a lower price. Dissatisfaction with this structure may be one of the reasons behind the criticism of Fast Retailing.

At this time, it cannot be confirmed that the “self-checkout lawsuit” and associated backlash are affecting Fast Retailing's sales and stock price. However, more frequent occurrences of intellectual property disputes such as this could result in clear manifestations of reputational risks, with SMEs and startups becoming reluctant to participate in technical tie-ups with a given company, for instance.

With the promotion of open innovation and the growing number of cases of new technologies and ideas being introduced from outside a company, it is expected that the number of patent-related disputes will increase. Since large companies with deep pockets become easy targets of non-practicing entities (NPEs)[10], giving consideration to intellectual property risks at all times when conducting business will become even more important going forward.

[10]Non-Practicing Entity refers to a person or company who tries to obtain a large amount of compensation or license fees by using patents purchased from various companies, without actually practicing the patented inventions. Also called patent troll.