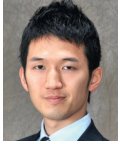


## JAPAN



**ABE & PARTNERS**  
Osaka

*Takanori Abe*

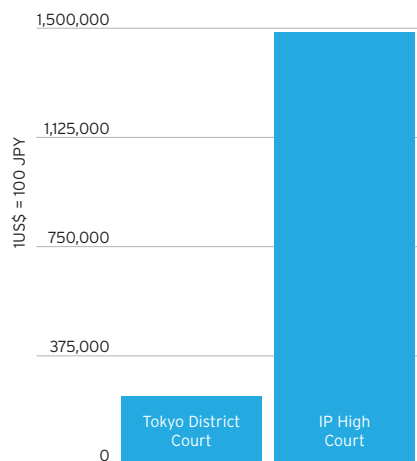


*and*  
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## Japanese IP High Court Grand Panel Eases Lost Profits Proof

Even a quick look at the figure indicates that damage awards in Japanese patent infringement litigations could multiply because of a recent IP High Court decision.

### Awarded damages



The figure depicts the respective damage amounts awarded by the first instance (the “Tokyo District Court”, a judgment of December 26, 2011) and by the appellate instance (the “IP High Court”, a judgment of February 1, 2013) in a patent infringement case regarding a patent on diaper disposal products (“the Patent”). The difference is around seven times! This difference derives from the application of different sections of the Patent Act by each court; the Tokyo District Court applied Art. 102(3) of the Patent Act (royalty) whereas the IP High Court applied Art. 102(2) (presumption of patentee’s damages based on infringer’s profit). Why did the two courts differ in their application of Art. 102?

The Japanese Patent Act provides three provisions to ease damage proof (Art.102 (1), (2), and (3) of the Patent Act). Art. 102(1) provides the presump-

tion that the patentee’s lost profits are the amount obtained by multiplying the quantities of articles sold by the infringer by the patentee’s profit per article. Art. 102(2) provides the presumption that an infringer’s profits are the patentee’s damages. Art. 102(3) provides the amount of royalties as the minimum amount of damages. According to the majority of court precedent and academic opinion, Art. 102(2) is not applied when a patentee does not practice the patented invention, such as no production or sale in Japan, because there are no lost profits under such situation. In this case the plaintiff, a U.K. manufacturer, did not manufacture and sell the patented products in Japan, but it manufactured in U.K. (outside of Japan) and its Japanese sales agent sold them in Japan. Thus, whether Art. 102(2) is applicable to this hybrid situation was an issue.

The Tokyo District Court held that for the Art. 102(2) to be applied, a patentee is required to practice its patented invention in Japan, following the majority of court precedents and academic opinion. Therefore, the court denied the applicability of Art. 102(2) to this case and applied Art. 102(3) instead. As a result, the court awarded approximately 21.1 million JPY (211,000 USD) for damages as the amount of royalties.

In contrast, the Grand Panel of the IP High Court held that for the Art.102(2) to be applied a patentee is not required to practice its patented invention. The rationale of the judgment was as follows: the language of Art. 102(2) does not require patentee to practice the patented invention; Art. 102(2) was intended to lighten the plaintiff’s burden of proof as to damages; and Art. 102(2) is merely a presumption clause; thus there is no reasonable ground to strictly interpret the requirement of applying Art. 102(2). The Grand Panel ruled that Art. 102(2) can be applied if there are circumstances where the patentee could have obtained profits should there had not been an infringement.

Here, the Grand Panel found that there was a circumstance where the patentee could have obtained profits should there had not been an infringement because of the following reasons: i) the plaintiff sold its patented products in Japan through its Japanese sales agent; ii) by importing and selling infringing products in Japan, the defendant is in competition not only with the sales agent but also with the plaintiff in

the Japanese market; and iii) the sales of the patented products in Japan had decreased due to the sales of the defendant’s infringement activities. Consequently, the Grand Panel applied Art. 102(2) and awarded approximately 148 million JPY (1.48 million USD) as damages, seven times of the Tokyo District Court’s damages award.

This case is the seventh Grand Panel case of the IP High Court since its establishment in 2005 and has a great significance. The Grand Panel is set up when a case raises important issues in which it is appropriate to provide a unified opinion from the Court. In a Grand Panel case, five judges conduct the proceedings and render the judgment.

Japanese Courts have been criticized for giving patent claims a narrow scope, slowness, and low damages awards. However, as to the narrow scope, the Supreme Court adopted the doctrine of equivalents. As to slowness, IP-specialist divisions in Tokyo and Osaka were established. This Grand Panel decision could be evaluated as to have improved the perception that low damages awards are granted.

As noted above, the Grand Panel held that, for the Art. 102(2) to be applied, a patentee is not required to practice its patented invention and that Art. 102(2) can be applied “if there are circumstances where the patentee could have obtained profits should there had not been an infringement” (“circumstances”). Subsequent courts will follow this Grand Panel decision unless the Supreme Court overturns the decision. Therefore, even though a foreign corporation who possesses Japanese patents does not practice the patented invention in Japan, it can enjoy application of Art. 102(2) as long as it can show the above “circumstances”. The Grand Panel decision opens the door to foreign corporations to be awarded far larger damage amount than ever before. On the other hand, foreign corporations who have a subsidiary in Japan should not be overly concerned of non-practicing entities (“NPEs”) seeking large damages against their subsidiary in Japan. NPEs may not be able to prove above “circumstances” because they would need to show some potential sales in Japan which they cannot absent own manufacturing or selling. Consequently, they should not be entitled to seek damages under Art. 102(2).