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Japanese IP High Court's Challenges

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The Intellectual Property High Court of Japan established in April 2005 will have its 10th anniversary this April. The US Court of Appeals for the Federal Circuit founded in 1982 is the model for this IP specialized court. Its purpose is to provide more judicial protection for IP and to make unified decisions in IP cases.

However, there still remain three major issues in Japanese patent infringement litigation – the low number of cases, the low success rate, and the low damages amount.

- In 2013, over 6,000 patent infringement cases were filed in the US, but less than 200 cases were filed in Japan.
- The success rates are 23% in Japan, 36% in the US, 39% in France, and 63% in Germany (note that the substantive success rate in Japan could be 42% if one includes favourable settlements).
- The average of the top ten large damage awards is \$900 million in the US, but less than \$8 million in Japan.

There was not a drastic increase in the amount of damages awarded during these ten years, but the IP High Court has made remarkable efforts in clarifying the method of damages calculated. As there are few Supreme Court cases on the method of damages calculation, the IP High Court has vigorously worked on this issue to make precedent. Below we introduce two cases.

The Japanese Patent Act stipulates the following three clauses regarding presumption of damages amounts:

- Article 102(1): Per-unit profit of the patentee's product that would have been sold unless there had been any infringement multiplied by the sold units of the accused products (however, if any circumstances exist under which the patentee would have been unable to sell the sold quantity in whole or in part, the amount calculated as the number of products not able to be sold shall be deducted)
- Article 102(2): Infringer's profits gained by infringement
- Article 102(3): Reasonable royalties

First, in *Sangenic Intl. Ltd. v. Aprica Children's Products Inc.*, the IP High Court issued an en banc decision on February 1 2013. This case concerned whether a patentee is required to practise the patented invention in order for Article 102(2) to be applied.

Sangenic, a baby accessories manufacturer, owned the patent-in-suit regarding diaper disposal system products and refill cassettes and had Combi Corporation in Japan, its exclusive distributor, import and sell its patented products. The Tokyo District Court decided that Article 102(2) should not apply to that case, since Sangenic did not practise the patent-in-suit in Japan. It found the rea-

sonable royalty of the patent-in-suit should be 10% and granted approximately \$175,000 under Article 102(3).

The IP High Court reversed the District Court's decision on the applicability of Article 102(2) and ruled that the patentee is not required to practise the patent-in-suit, but there should be a cause-and-effect relationship between the infringement and the patentee's loss. It found that Aprica was a competitor of Sangenic and Combi and granted approximately \$1.2 million under Article 102(2).

Usually the percentage of the infringer's profits is higher than the reasonable royalty rate. The IP High Court, by broadly applying Article 102(2), gave the non-practising patentee a chance to seek more damages than the reasonable royalty under Article 102(3).

Second, in *Bridgestone Sports Co., Ltd. v. Acushnet Japan Inc.*, the IP High Court issued a decision on January 24 2012, regarding the patent-in-suit of a special core in a golf ball to improve the distance of golf shots. The Tokyo District Court refused to apply both Articles 102(1) and (3) at the same time and held that the calculation methods under these articles are different and it would result in unreasonable and excessive compensation for Bridgestone, the patentee, if the court applied Article 102(3) to the quantity of accused products sold by Acushnet that Bridgestone would not have been able to sell.

The District Court also decided that Bridgestone would not have been able to sell its patented golf balls in the same quantity sold by Acushnet, but that the patentee could have sold 40% of them, because Acushnet's business efforts and brand contributed to the sales of the accused products and other competitors had market shares. The District Court granted approximately \$14.8 million without considering the

contribution rate of the patent-in-suit. This was the highest damages award in a district court in the ten years from 2005 through 2014.

After Acushnet lost at the District Court, it retained Morrison & Foerster/Ito & Mitomi to represent it on appeal with respect to the damages issue. The IP High Court affirmed the District Court's ruling on the applicability of Articles 102(1) and (3) but found the contribution rate of the patent-in-suit should be 50% considering the following factors:

- Acushnet's popularity in the golf ball market in Japan
- The high number of technologies and patents used in a golf ball

THE DISTRICT COURT GRANTED APPROXIMATELY \$14.8 MILLION WITHOUT CONSIDERING THE CONTRIBUTION RATE OF THE PATENT-IN-SUIT. THIS WAS THE HIGHEST DAMAGES AWARD IN A DISTRICT COURT IN THE TEN YEARS FROM 2005 THROUGH 2014

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- Significant technologies such as the cover and the dimple of a golf ball other than the core
- Important performance such as the spin, the launch angle, the dimple, etc, other than the improvement of the distance of the golf shot

Therefore, the IP High Court concluded that the patentee could have sold its patented golf balls at the quantity of 20% of accused

products sold by Acushnet and substantially reduced the damages award to \$7.6 million. This reduction of \$7.2 million was the highest damages award reduction by the IP High Court except for cases where it found non-infringement or invalidity.

As set forth above, the IP High Court has made significant precedent regarding the damages calculation framework by clarifying the interpretation of Article 102's presumption of damages amounts.

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