
Articles

IP High Court Grand Panel Decisions on Calculating Patent Infringement Damages: Methods and factors to consider when calculating damages under Article 102(1)-(3) of the Patent Act

– Lessons from IPHC Special Div. Decision dated June 7, 2019 (2018 (Ne) 10063 “Carbon Dioxide-Containing Viscous Composition” case) & IPHC Special Div. Decision dated February 28, 2020 (2019 (Ne) 10003 “Beauty Instrument” case)

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1. Introduction

The revision regarding the calculation of damages under Article 102 of the Patent Act received much attention, and now in the past year and a half the Intellectual Property High Court (IPHC) Grand Panel has rendered two decisions on the calculation standards. The effect that these rulings will have on intellectual property practices is a topic of great interest. In this article, I will discuss the best practices for handling IP infringement damages in a case and how this law may develop based on the lessons in these two Grand Panel decisions.

In patent infringement litigation in Japan, it is difficult to prove the amount of damages, thus the standard practice is to base the calculation on one of the presumptive rules given in Paragraphs (1) to

(3) of Article 102. In the first of the two Grand Panel decisions I will discuss (IPHC Special Div. Decision dated June 7, 2019, “Carbon Dioxide-Containing Viscous Composition” case), the court assesses the damages calculation under Paragraphs (2) and (3), while in the second case (IPHC Special Div. Decision dated February 28, 2020, “Beauty Instrument” case), the court assesses the damages calculation under Paragraph (1). Thus, these two decisions give the IPHC’s opinion on the methods to use and factors to consider when calculating damages in relation to all of the provisions in Paragraphs (1) to (3) of Article 102. Grand Panel decisions generally have considerable impact on IP practices.¹ Because the Grand Panel that rendered these two decisions consisted of the four Presiding Judges of the First to

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Fourth Divisions and one Associate Judge, these decisions represent a unified opinion of the IPHC, and thus may be thought to have a major impact on the judicial practices at the IPHC and the lower courts (the Tokyo and Osaka District Courts) as well as on IP practices in general.

In the past, the method for calculating damages differed from Division to Division and the results were not very predictable. These two Grand Panel decisions are expected to correct disparities between the Divisions and to increase the predictability for the parties. Moreover, these decisions are significant in that they are expected to improve the situation in Japan, criticized for having damage calculation standards applied as if by a black box and damages kept too small compared to other countries.

In the following sections, I will first provide a brief explanation of Article 102 of the Patent Act, which sets forth the damage value calculation, then summarize and interpret the two above-mentioned court decisions, and finally discuss the influence these decisions may have on future cases.

2. Article 102 of the Patent Act

In Japan, the legal basis to be compensated for damages caused by a tort is Article 709 of the Civil Code. Article 102 sets forth the presumptions to apply when calculating damages under the Patent Act. As mentioned above, Article 102 was revised recently. The entire text of revised Article 102 is shown below (the revised parts are underlined):

Article 102 (1) If a patentee or exclusive licensee claims compensation

for damage incurred by themselves due to infringement, against a person who, intentionally or due to negligence, infringes the patent right or exclusive license, and this person transfers the infringing goods, the total amount calculated in the following items may be fixed as the value of the damage the patentee or exclusive licensee has incurred:

(i) The amount of profits per unit from the goods the patentee or exclusive licensee could have sold but for the infringement, multiplied by the quantity of goods the infringer transferred (in the next item, referred to as “transferred quantity,” which shall be up to a quantity commensurate with the capacity of the patentee or exclusive licensee to work the invention (in the next item, referred to as “reasonable quantity”)). (If there are circumstances due to which the patentee or exclusive licensee would have been unable to sell a quantity comparable to all or part of the transferred quantity, a quantity proportional to such circumstances (in the next item, referred to as “specific quantity”) shall be deducted.)

(ii) The amount of money the patentee or exclusive licensee would have been entitled to receive correspondingly for the working of the patented invention if there is a specific quantity or a quantity transferred in excess of a reasonable quantity (except in cases where it is found not possible for the patentee or exclusive licensee to establish an exclusive license and grant a non-exclusive license for the patent right owned by the patentee, or to grant a non-exclusive license for the exclusive license owned by the exclusive licensee).

(2) If a patentee or exclusive licensee claims compensation for damage incurred by themselves due to infringement, against a person who, intentionally or due to negligence, infringes the patent right or exclusive license, and this person makes a profit from the infringement, that profit shall be presumed to be the value of the damage incurred by the patentee or exclusive licensee.

(3) A patentee or exclusive licensee may fix the value of damage incurred by themselves as being equivalent to the amount of money the patentee or exclusive licensee would have been entitled to receive for the working of the patented invention, and may claim compensation for this against a person who, intentionally or due to negligence, infringes the patent or exclusive license.

(4) When determining the amount of money to be received for the working of the patented invention as provided in paragraphs (1)(ii) and (3), the court may take into account the amount of compensation the patentee or exclusive licensee would have received if the patentee or exclusive licensee had agreed with the infringer on the amount of compensation for the working of the patented invention, on the assumption that the patent right or exclusive license has already been infringed.

(5) Paragraph (3) does not preclude any claim for damages in excess of the amount provided for therein. In this case, the court may consider the absence of intent or gross negligence,

by the person who has infringed the patent or exclusive license in fixing the amount of damages.

Although the two Grand Panel decisions apply Article 102 of the former Patent Act, the reasoning of each decision is basically valid under the revised Act as well².

Paragraphs (1) to (3) of Article 102 are intended to reduce the burden on the plaintiff (patentee) in proving the amount of damages, and the selection of which paragraph to use is left up to the plaintiff. Paragraphs (1), (2), and (3) presume an amount of damages based on the plaintiff's profits, the defendant's profits, and a reasonable royalty, respectively. It is generally thought that the amount of damages under these paragraphs tends to run in the order: (1) > (2) > (3).

Paragraph (1) is considered especially helpful when the defendant's product is sold at an extremely low price compared to the plaintiff's product, in which case an adequate amount of damages could not be awarded based on the defendant's sales or profits. However, when using the presumption in (1), the plaintiff will have to prove a profit margin by showing their accounting records etc., which may be confidential information. Because of the reluctance to disclose such information to the defendant (who is often a competitor of the plaintiff), Paragraph (2) is selected instead of (1) in not a few cases (the plaintiff may select (2) in the hope that the defendant will be forced to disclose their accounting records or other confidential information). If the plaintiff has not worked the patented invention, it will be difficult to file a claim for damages under (1) or (2), therefore (3) would be

applied in many cases.

Although Paragraphs (1) to (3) are very practical, as described above, other methods of calculation are permissible if the value of damage can be proved³. However, due to the difficulty of proving it, it is extremely rare that damages would be calculated by using a different method instead of applying (or applying *mutatis mutandis*) one of the provisions in Paragraphs (1) to (3).

Based on the foregoing, I will briefly explain the revision to the Patent Act shown above (Paragraph (1)(ii) and Paragraph (4) of Article 102):

Concerning Article 102 (1) of the former Act (corresponding to Article 102 (1)(i) of the revised Act), there was a debate about whether a reasonable royalty should be available under Paragraph (3) on a quantity in excess of the plaintiff's capacity to sell through the working of the patented invention (i.e. the part of the quantity not included in the amount of the plaintiff's profits, which is presumed to be the amount of damages). The newly added Paragraph (1)(ii) clearly states that it should be available and therefore the above-mentioned point of debate has been legislatively settled. Although this part is not presumed to be included in the quantity under Paragraph (1)(i), it is not appropriate to disallow the use of this part as a basis for calculation of damages, because a reasonable royalty under Paragraph (3) may be calculated on the total sales quantity of the defendant's product, irrespective of the plaintiff's capacity to sell their product. Consequently, the newly added Paragraph (1)(ii) is reasonable.

Paragraph (3) provides for a reasonable royalty. Under the former Act, the amount of a reasonable royalty was often determined by reference to the average

license fees that were actually agreed on in the relevant technical field. Article 102 (4) of the revised Act provides that the court may take into consideration the amount of compensation to be received based on the assumption that there has already been infringement, which in effect allows a larger amount of damages to be awarded, compared to the amount of ordinary license fees. As mentioned above, when the patentee has not worked the patented invention, Paragraph (3) will be usually applied. However, if the amount of a reasonable royalty is equivalent to ordinary fees agreed on in advance in a license agreement, infringers may think they will not have to pay royalties until their infringing acts are proved. As a result, such legal measures will not serve at all as a deterrence to infringing acts and the patentees will not have an opportunity to decide whether to grant a license and on what terms and conditions. For this reason, the newly added Paragraph (4) is also reasonable. In the "Carbon Dioxide-Containing Viscous Composition" case (discussed in detail later), the Grand Panel applied Article 102 (3) of the former Act but this decision may be considered to be in line with the gist of Article 102 (4) of the revised Act.

3. Summary of the Grand Panel decisions

3-1. Introduction

As mentioned above, in the first of the two Grand Panel decisions ("Carbon Dioxide-Containing Viscous Composition" case), the court comments on how to calculate damages under Article 102 (2) and (3), while in the second case ("Beauty Instrument" case), the court comments on the calculation of damages

under Article 102 (1). Chronologically, the Carbon Dioxide-Containing Viscous Composition case was decided earlier, but I will discuss Paragraphs (1), (2), and (3) in numeric order, pointing out important points in these two decisions.

3-2. Article 102 (1) of the Patent Act (Grand Panel decision on Beauty Instrument case)

In relation to Paragraph (1), the decision mainly states the following (underlines added by the author):

“(1) Article 102 (1) of the Patent Act

Paragraph (1) of Article 102 provides for the calculation of the value of damage when a patentee claims compensation for lost profits caused by a decrease in sales quantity under Article 709 of the Civil Code. Paragraph (1) states that the value shall be calculated by multiplying the quantity of goods the infringer transferred by the amount of profits per unit from the goods the patentee or exclusive licensee (hereinafter called “patentee etc.”) could have sold but for the infringement, and said value shall be within the limit of the capacity of the patentee etc. to work the patented invention. Then, if the infringer proves that there are circumstances due to which the patentee etc. would have been unable to sell a quantity comparable to all or part of the transferred quantity, a quantity proportional to such circumstances shall be deducted to re-calculate the value of damage in accordance with the proviso to the paragraph. In this way, Paragraph (1) is intended to allow a decreased quantity of sales to be determined more flexibly by shifting the burden of proving the decreased quan-

tity of sales, which has a sufficient causal relationship with the infringing act.

According to the text and above-mentioned gist of Paragraph (1), the product of the patentee etc. whose sales quantity is affected by the infringing act, i.e. the product of the patentee etc. that has a competitive relationship with the infringing goods can be regarded as “the goods the patentee etc. could have sold but for the infringement.

The “amount of profits per unit” should be regarded as an amount (of marginal profits) calculated by deducting additional costs that are directly related to the manufacture and sale of said product by the patentee etc., from the total sales of this product. The burden of proof (including proof of the capacity of the patentee etc. to work the patented invention) should lie with the patentee etc.

The burden of asserting and proving the existence of “circumstances due to which the patentee etc. would have been unable to sell a quantity comparable to all or part of the transferred quantity” in the proviso to this paragraph shall lie with the infringer. When the existence of such circumstances is asserted and proved successfully, a quantity proportional to the said circumstances will be deducted to re-calculate the value of damage.”

“(3) The amount of profits per unit from the goods that could have been sold but for the infringement

- a. Goods that could have been sold but for the infringement

As said in the section (1) above, the product of the patentee etc. whose

sales quantity is affected by the infringing act, i.e. the product of the patentee etc. that has a competitive relationship with the infringing goods can be regarded as “the goods that could have been sold but for the infringement.” The plaintiff in the first instance has been working Invention 2 to make and sell a beauty instrument called “ReFa CARAT” (hereinafter referred to as “Plaintiff’s Product”) since February 2009 (Exhibits *Ko* 23, 24, and the entire import of oral argument). It is obvious that the Plaintiff’s Product corresponds to “the goods that could have been sold but for the infringement.”

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c. Marginal profits from Plaintiff’s Product

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In light of the description of the scope of patent claims for Invention 2 and the details of Description 2, Invention 2 is an invention of a beauty instrument made up of such components as rotating bodies, support shafts, bearings, and a handle. This invention is characterized by a configuration of the bearing and the inner peripheral surface of the rotating body (hereinafter, this part is referred to as the “Characteristic Part”).

As described in a. above, the plaintiff’s product is a beauty instrument designed to give a cosmetic effect by gently pinching the skin when it is pressed against the skin and moved on its pair of rotating bodies, which are supported in a rotatable manner by the support shafts. Therefore, the Characteristic Part is merely a part of the Plaintiff’s Product.

However, even if the Characteris-

tic Part of the patent invention is merely a part of the Plaintiff’s Product by which the patentee works the patented invention, the total amount of marginal profits on the sale of the Patentee’s Product should be presumed to be the patentee’s lost profits.

It is important for the plaintiff’s product to achieve favorable rotation of the rotating bodies. As necessary components for this purpose, the “characteristic part” of this invention, i.e. the configuration of the bearing and the inner peripheral surface of the rotating body, contributes, to a certain degree, to an increase in profits on the sale of the Plaintiff’s Product.

As described above, the Plaintiff’s Product is a beauty instrument designed to give a cosmetic effect by gently pinching the skin when it is pressed against the skin and moved on its pair of rotating bodies. Therefore, what attracts customers most is the structure of the rotating bodies. The Plaintiff’s Product also increases its attractiveness by having a solar panel to generate small currents. Judging from these facts, it cannot be said that all profits from the Plaintiff’s Product are brought by the Characteristic Part. Therefore, it is not reasonable to recognize the total amount of marginal profits on the sale of the Plaintiff’s Product as the plaintiff’s lost profits and the above-mentioned presumption should be partially overturned.

Considering all relevant factors that have been revealed in the course of this trial, e.g. the significance of the Characteristic Part for the Plaintiff’s Product, and other features provided by the Plaintiff’s Product and their attractiveness, the percentage of the profits

reduced by partially overturning the presumption should be approx. 60%.

.....”

“(4) Value of damage commensurate with the capacity to work the invention

According to Paragraph (1) of Article 102, the value of damage is not a full amount calculated by multiplying the transferred quantity of infringing goods by the amount of profits per unit from the product of the patentee etc.—the value cannot exceed an amount commensurate with the patentee etc.’s capacity to work the patented invention. This “capacity to work” can be regarded as the “potential to work,” and a patentee should be regarded as having the capacity if they can provide a quantity of products that corresponds to the sales quantity of infringing goods by commissioning [outsourcing] the production. The burden of asserting and proving this capacity should lie with the patentee.”

“(5) Circumstances due to which the plaintiff in the first instance would have been unable to sell...

a. According to the proviso to Paragraph (1), if there are circumstances due to which the patentee would have been unable to sell a quantity comparable to all or part of the quantity of infringing goods transferred by the infringer (hereinafter “circumstances unfavorable to the sale”), a quantity proportional to the said circumstances shall be deducted. If the infringer asserts and proves the existence of circumstances unfavorable to the sale, as well as a quantity proportional to such circumstances, an amount of money corresponding to this

quantity will be deducted from the calculated value of damage.

The “circumstances unfavorable to the sale” refer to those that impede a sufficient causal relationship between the infringing act and a decrease in the sales of the patentee’s product, e.g. (i) differences between the patentee and the infringer in the way to conduct business activities, in price of products etc. (different conditions in the market), (ii) existence of a competing product in the market, (iii) the infringer’s marketing efforts (branding, advertisements), and (iv) differences in performance between the infringing goods and the patentee’s product (functions, designs, and other features not covered by the patented invention).

.....

b. The following is a discussion of the “circumstances unfavorable to the sale” asserted by the defendant in the first instance:

As the circumstances unfavorable to the sale, the defendant pointed out differences in the price and the place for sale of the product between the plaintiff and the defendant.

As mentioned in (2) c. and (3) a., the plaintiff’s product is sold for 23,800 yen or for a similar price at major catalog retailers and department stores, while the defendant’s product is sold for 3,000 to 5,000 yen at discount stores and miscellaneous goods stores. Compared to the plaintiff’s product that is a relatively expensive beauty instrument, the defendant’s product is sold at one-eighth to one-fifth the price of the plaintiff’s product. It is not necessarily true that the customers of the defendant’s product would have

bought the plaintiff's product if the defendant's product had not existed. Therefore, the difference in the price can be regarded as the circumstances unfavorable to the sale.

Since the difference in price between the plaintiff's product and the defendant's product is not small, "a quantity proportional to such circumstances" will not be small.

.....

Considering the factors mentioned in b. above, the quantity proportional to the circumstances unfavorable to the sale should be approx. 50% of the total quantity."

"(6) Possibility to reduce the value of damage by considering the degree of contribution of Invention 2

As mentioned in (3) and (5) above, when calculating the amount of profits per unit from the plaintiff's product, 60% of the marginal profits should be deducted by considering the degree of contribution of Invention 2 to an increase in profits on the sale of the plaintiff's product. Moreover, after calculating the value of damage by multiplying the sales quantity of the defendant's product by the above-mentioned amount of profits per unit from the plaintiff's product, this value should be reduced by 50% in accordance with the proviso to Paragraph (1). If, aside from these deductions, the defendant argues that the value of damage should be reduced by considering a contribution of the Invention 2 to the sales of the defendant's product, such a reduction will not be allowed because there is no provision or justification for it."

3-3. Article 102 (2) of the Patent Act (Grand Panel decision on Carbon Dioxide-Containing Viscous Composition case)

In relation to Paragraph (2), the decision mainly states the following:

"(1) Article 102 (2) of the Patent Act

a. Paragraph (2) of Article 102 provides, "If a patentee... claims compensation for damage incurred personally due to infringement, against a person who, intentionally or due to negligence, infringes the patent right . . . , and this person makes a profit from the infringement, that profit shall be presumed to be the value of damage incurred by the patentee" Per civil code principles, to claim damages for patent infringement, the patentee has to assert and prove the occurrence and the value of damage, and a causal relationship between the damage and the act of patent infringement. However, since it is usually difficult to prove them, the patentee may not be adequately compensated. To relieve this difficulty, Paragraph (2) provides that if the infringer makes a profit from the infringing act, such a profit should be presumed to be the value of damage incurred by the patentee. Paragraph (2) should be applicable if there are circumstances due to which the patentee could have made a profit but for the infringer's act of infringing the patent.

b. Since September 1999, the appellee has been manufacturing and selling two-component (gel and granular formulations) carbonic acid facial masks under the trade names "Mediexplorer," "Spaoxy Gel," and "Nano

Acqua Gel Pack.” These products (collectively referred to as the “Plaintiff’s Products”) practice the Inventions 1-1 and 2-1 (Exhibits *Ko* 5, 6, 46, 55-2, and the entire import of oral argument).

According to the exhibits, it is found that there are circumstances due to which the appellee could have made a profit but for the appellants’ act of infringing the patent rights, and therefore Paragraph (2) is applicable.

c. Judging from the above-mentioned gist of Paragraph (2), profits made from an infringing act should be considered to be the total amount of profits obtained by the infringer, and this full amount of profits should be presumed to be the value of damage under this paragraph. However, since this is a presumption, it can be rebutted if the infringer asserts and proves the lack of a sufficient causal relationship between all or part of the profits made by the infringer and the damage incurred by the patentee.”

“(2) Amount of profits made by the infringer from the infringing act

a. What are the profits

The amount of profits the infringer made from the infringing act in Paragraph (2) should be regarded as an amount of marginal profits calculated by deducting additional costs that are directly related to the manufacture and sale of the infringing goods by the infringer, from the total sales of the infringing goods. The burden of proof should lie with the patentee.”

“(3) Grounds for overturning of presumption

a. Circumstances that lead to over-

turning the presumption

As in the case of the circumstances provided in the proviso to Paragraph (1), the infringer should bear the burden of asserting and proving circumstances that lead to overturning of presumption under Paragraph (2). Said circumstances refer to those that impede a sufficient causal relationship between the profits made by the infringer and the damage incurred by the patentee, e.g. (i) differences between the patentee and the infringer in the way to conduct business activities etc. (different conditions in the market), (ii) existence of a competing product in the market, (iii) the infringer’s marketing efforts (branding, advertisements), and (iv) performance of the infringing goods (functions, designs and other features not covered by the patented invention). As in the case of the circumstances provided in the proviso to Paragraph (1), these circumstances can be taken into consideration as grounds for overturning of presumption under Paragraph (2). If the patented invention is used only in a part of the infringing goods, such a fact may be taken into consideration as grounds for overturning of presumption. However, a presumption will not be overturned simply because the patented invention is used only in a part of the infringing goods. It is reasonable to consider all relevant factors, e.g. the significance of that part for the infringing goods, the attractiveness of the patented invention, etc.”

“b. The appellants assert that the existence of other carbonic acid facial masks serves as grounds for overturning of presumption, on a premise that

all of the carbonic acid facial masks are competing products.

However, to be regarded as a competing product, it needs to be a product in competition with the infringing goods in the market.

. Although the appellants argue that there is a competing product, information about this product, such as the date of its launch onto the market and its market share is unknown. Therefore, it is not adequately recognized as a product that is in competition with the defendants' products in the market.

c. The appellants argue that each of the defendants' products offer great convenience and the sales of these products are due to the appellants' planning ability and marketing efforts.

However, it is normal for a company to try to improve convenience and to make marketing efforts when manufacturing and selling their products. Such normal efforts do not serve as grounds for overturning of presumption. There is no adequate evidence to support that fact that the appellants have made efforts that are considered more than a normal level of efforts.

d. The appellants argue that each of the defendants' products is considerably superior in efficacy to the plaintiff's product.

The presumption will not be overturned simply because the defendants' products are considerably superior in efficacy to the plaintiff's product, but such efficacy needs to make an actual contribution to the sales of the infringers' products. It is not found that defendants' products are

considerably superior in efficacy to the plaintiff's product or they make a contribution to the appellants' sales. There is no other good evidence to support this either.

e. The appellants argue that each of the defendants' products uses a patented invention owned by NeoChemir (one of the appellants) and the value of damage should be reduced by considering a contribution of this invention.

However, the presumption will not be overturned simply because the infringing goods use a different patented invention. The use of that invention needs to make an actual contribution to the sales of the infringing goods. It is true that NeoChemir has a patent for a carbonic acid product for external use but there is not good evidence to support the fact that each of the defendants' products falls within the technical scope of this patented invention. Therefore, these products cannot be regarded as products that use a different patented invention in the first place, and the presumption is not overturned.

Some of the appellants give an indication of the said patent on the outer package of their products or in advertisements (Exhibits *Ko* 7, 8, 17, 20). However, the value of damage cannot be reduced for this reason because it is not reasonable that a mere indication of a patent be taken into consideration as grounds for overturning of presumption when there is no evidence for the working of that patented invention."

3-4. Article 102 (3) of the Patent Act (Grand Panel decision on Carbon Dioxide-Containing Viscous Composition case)

In relation to Paragraph (3), the decision mainly states the following:

“6. Damage (Article 102 (3) of the Patent Act (Point of dispute 6-2)

(1) Article 102 (3) of the Patent Act

a. Paragraph (3) of Article 102 provides for a minimum value of damage for which a patentee may claim compensation.

b. Paragraph (3) provides, “A patentee . . . may fix the value of damage incurred personally as being equivalent to the amount of money the patentee . . . would have been entitled to receive for the working of the patented invention, and may claim compensation for this against a person who, intentionally or due to negligence, infringes the patent.” Under this paragraph, the value of damage should be calculated, in principle, by multiplying the sales of the infringing goods by the reasonable royalty rate.

(2) Value of damage equivalent to the amount of money to be received for the working of patented invention

a. In the past, Paragraph (3) stated, “*the value of damage . . . equivalent to the amount of money the patentee . . . would have been ordinarily entitled to receive for the working of the patented invention.*” When the Patent Act was revised by Law No.51 of 1998, the word “ordinarily” was removed from the text on the grounds that, if the value of damage is equivalent to an

ordinary amount of royalties, an infringer can infringe a patent with virtual impunity.

When concluding a patent license agreement, the royalty rate is usually decided on in advance under many contractual restrictions (e.g. the licensee pays a minimum guarantee while it is not yet certain whether the licensed product falls within the technical scope of a competitor’s patent or whether the patent concerned is invalid or not, and even when the patent is invalidated, the licensee cannot demand a refund of the royalties already paid. If a product falls within the technical scope of a patent and the patent is found to be valid and infringed, the infringer is not subject to such contractual restrictions as mentioned above. Given the situation that led to the above-mentioned revision, there is no need at all to determine the value of damage under this paragraph based on a royalty rate in a related patent license agreement. The rate of reasonable royalties should naturally be higher than an ordinary rate when it is determined afterwards for an act of patent infringement.

The reasonable royalty rate should be determined by giving comprehensive consideration to: (i) a royalty rate in an actual license agreement on the patented invention or a going rate in the industry if the actual rate is unknown, (ii) the value of the patented invention, i.e. its technical details or importance, the possibility of being substituted with something else, (iii) how the patented invention would be infringed or would contribute to an increase in the sales or profits when used in the relevant product, (iv) a competitive relationship between the patentee

and the infringer, the patentee's business policy, and other circumstances that have been revealed in the course of this trial."

"c. Amount of money to be received for the working of patented invention

As to (i) in the preceding paragraph, a royalty rate in an actual license agreement is unknown, but the statistical average rates in actual license agreements in the technical field to which the patented invention belongs are 5.3% according to the results of a questionnaire answered by Japanese companies and 6.1% in the judicial decisions. For another patent held by appellee in the technical field, 10% of the sales was paid to settle a patent infringement case. As to (ii), Inventions 1-1 and 2-1 are important in their own ways and they are not substitutable. As to (iii), Inventions 1-1 and 2-1 contribute to an increase in the sales of or profits from the defendants' products. As to (iv), the appellee and the appellants have competitive relationships. Considering all of these relevant factors revealed in the course of this trial, the reasonable royalty rate determined afterwards for the act of patent infringement should be not less than 10%. In light of the details of Patent 1 and 2, the rate should not be different when calculating reasonable royalties based on only one of the two patents or based on both patents."

4. Discussion of two Grand Panel decisions

4-1. Summary of two Grand Panel decisions

In the "Carbon Dioxide-Containing Viscous Composition" case, the plaintiff sought compensation under Paragraphs (2) and (3) of Article 102. The court awarded damages under (2) or (3), whichever was larger, for each defendant (against most of the defendants, the amount of damages was larger under (2) than under (3)). When the value of damage was calculated under (2), the defendants' profits were recognized as the value of damage, with no reduction for a contribution rate or an overturning of the presumption.

In the "Beauty Instrument" case, the plaintiff sought compensation under Paragraph (1) alone. When calculating the amount of profits per unit for the Plaintiff's Product, the court deducted 60% of the profits by considering the degree of contribution of the patented invention to an increase in the sales of the Plaintiff's Product (as grounds for overturning of the presumption). Then, the court reduced the calculated value of damage by 50% due to "circumstances unfavorable to the sale." As a result, the value of damage was reduced to only 20% of the plaintiff's profits.

When comparing these two decisions, a considerable amount is reduced in the "Beauty Instrument" case. This difference seems to be caused mainly by the fact that compensation is claimed under different provisions: Paragraphs (1) where the damage is calculated on the basis of the plaintiff's profits and (2) on the basis of the defendant's profits. In the "Beauty Instrument" case, the Plaintiff's

Product is sold for around 23,800 at major catalog retailers and department stores, while the defendant's product is sold for 3,000 to 5,000 yen (one-eighth to one-fifth the price of the Plaintiff's Product) at discount stores and miscellaneous goods stores. As stated in the decision, the Plaintiff's Product has value-added features that make up a fairly large portion of its price, and it is considerably different from the defendant's product in terms quality. For this reason, it would be unreasonable to determine the value of damage under Paragraph (1), simply by multiplying the profits from the Plaintiff's Product by the sales quantity of the defendant's product, without any reductions (in fact, in the original decision rendered by the Osaka District Court dated November 29, 2018⁴ (2016 (Wa) 5345), the value of damage was reduced twice (based on the contribution rate and by considering the "circumstances unfavorable to the sale") to only 5% of the plaintiff's profits⁵, while at the IPHC, four times this amount of damages was awarded).

In my personal view, the court did not have to reduce the value of damage twice by invoking both "overturning of the presumption," which appears in all paragraphs, and considering the "circumstances unfavorable to the sale" that is specific to Paragraph (1). As described later, I think all of the factors and the circumstances that led to the reductions could be combined into the "circumstances unfavorable to the sale." If this single ground had been used to reduce the value of damage by a total of 80%, this case would have been decided in a more adequate and comprehensible manner from the viewpoint of legal theory⁶. In that sense, the method for deciding the

"Beauty Instrument" case was somewhat questionable, but the conclusion was reasonable: the Grand Panel reduced the plaintiff's profits by 80% (or limited the reduction to 80%, to be more accurate) by considering the features of the plaintiff's product and the differences from the defendant's product as grounds for overturning of the presumption. Actually, the amount of damages awarded is considerably large, compared to past court decisions on similar cases. If the plaintiff in the "Beauty Instrument" case had claimed compensation under Paragraph (2), the defendant's profits would have been calculated based on the price of the defendant's product (3,000 to 5,000 yen, or one-eighth to one-fifth the price of the Plaintiff's Product), and even assuming no reductions for overturning the presumption, the amount of damages would likely not have exceeded the amount of damages awarded in the decision.

In view of the above, the two Grand Panel decisions shows the IPHC's clear intention to determine the value of damage to be larger in patent infringement cases, compared to the previous conventional practices, by not easily reducing the value of damage based on a contribution rate. These decisions are likely to have considerable impact on the practices related to damages for IP infringement.

In the following sections, I will discuss in detail how the two Grand Panel decisions interpret Paragraphs (1) to (3) of Article 102. (Many of the comments on Paragraphs (1) and (2) are the same in the two decisions, so I will discuss these comments in the same section.)

4-2. What are the “profits” that are presumed to be value of damage under Article 102 (1) and (2)?

There are two competing theories for how to interpret the profits that are presumed to be the value of damage under Paragraphs (1) and (2) of Article 102:

- (i) Contribution profit theory: the profits are due to the contribution of the patented invention.
- (ii) Total profit - non-contribution rate (dividing the burden of proof) theory: The patentee should bear the burden of proving the amount of total profits, while the infringer should bear the burden of proving the rate of contribution (non-contribution) of the patented invention, as grounds for proportionately overturning the presumption that the amount of total profits is equivalent to the value of damage.

Consider these theories from the viewpoint of the factual elements involved. The contribution profit theory regards the amount of profits brought by the patented invention as the cause of action and the patentee bears the burden of asserting and proving the contribution rate. The “total profit - non-contribution rate” theory regards the total profits as the cause of action to be asserted and proved by the plaintiff, and the defendant should assert and prove the rate of non-contribution as a defense⁷. In the past, more decisions were rendered in accordance with the contribution profit theory and there was a criticism that the value of damage can be reduced in various ways in the context of the degree of contribution to the infringer’s profits. In fact, in most of the cases in which the contribu-

tion profit theory is adopted, it seems that the court arbitrarily determines the amount by considering various circumstances or the minimum amount that is found to be brought by the patented invention.

It is clear that the two Grand Panel decisions adopt the “total profit - non-contribution rate” theory⁸. Under this theory the amount of damages tends to be larger compared to under the contribution profit theory, because whenever the contribution (non-contribution) rate is not proven, these factors are removed from consideration⁹.

What is the significance of these two Grand Panel decisions, relative to past decisions by the IPHC? In many of the past decisions, the calculation of a contribution rate was done almost as a matter of routine to determine the value of damage under Paragraphs (1) and (2). This means that the above-mentioned contribution profit theory was practically adopted or the conclusion would have been the same if the contribution profit theory had been adopted.

In the IPHC decision dated March 22, 2012 (2011 (Ne) 10002, “Pre-cut Rice Cake” case)¹⁰, the court ruled, “when the defendant sold their products (1 to 5 in the attached List of Articles), the percentage of the profits brought by the patented invention should be 15%¹¹”. Although the court recognized that a fairly large percentage of the sales of the defendant’s products was brought by the patented invention, specific evidence was not cited for a percentage of the sales related to the non-contribution. In this case, the amount sought in damages was 1,485 million yen in the first instance and after the interlocutory judgement in the appeal trial where the court found that the patent was

infringed, the plaintiff increased the amount to 5,940 million yen. It seems that the plaintiff (appellant) wanted to receive a much larger amount of damages in the first instance, although it might be a strategy for having a large amount of damages awarded. If such a contribution rate as determined by the IPHC had been reasonably predictable from the beginning, the appellant would not have needed to buy additional revenue stamps to increase the amount. The “Pre-cut Rice Cake” case is just one example. There were many cases where the amount of damages is substantially reduced because the court determined the contribution rate without clear evidence for the non-contribution.

In this respect, however, it seems that the IPHC started to change the way they decide a case when the Grand Panel rendered a decision dated February 1, 2013 (2012 (Ne) 10015, “Waste Storage Device” case)¹². According to the decision in this case, circumstances such as differences between how the patentee and the infringer conduct business activities should be taken into consideration as grounds for overturning the presumed value of damage. The Grand Panel denied the applicability of the contribution profit theory and made it clear that they would use the “total profit - non-contribution rate” theory¹³. In an increasing number of subsequent decisions by the IPHC, a reduction of the amount of damages is more carefully determined by considering certain factors as grounds for overturning the presumption under Paragraph (2), instead of reducing the amount based on a contribution rate¹⁴. In many of these cases, the court tends to consider factors related to “contribution rate” as part of the “ground for overturning the presump-

tion.” However, there is also a decision in which “contribution rate” and “grounds for overturning of presumption” are considered separately in a section “Grounds for overturning of presumption etc.”¹⁵ (See IPHC decision dated December 17, 2014 (2013 (Ne) 10025) “Metal Shelf and Metal Cart” case)¹⁶.

The two Grand Panel decisions are in line with the above-mentioned Grand Panel decision on the “Waste Storage Device” case and a number of subsequent IPHC decisions. From now on, “grounds for overturning of presumption” and “contribution rate” will no longer be handled individually, it seems that all relevant factors will be considered as grounds for overturning of presumption as the established practice.

4-3. Factors to be considered for overturning of presumption under Article 102 (1) and (2)

According to the two Grand Panel decisions, the infringer bears the burden of asserting and proving the existence of circumstances that lead to the overturning of presumption under Paragraphs (1) and (2) of Article 102. Said circumstances refer to those that impede a sufficient causal relationship between the profits made by the infringer and the damage incurred by the patentee.

In the decision on the “Beauty Instrument” case, the “circumstances unfavorable to the sale” in the proviso to Paragraph (1) refer to those that impede a sufficient causal relationship between the infringing act and a decrease in the sales of the patentee’s product, e.g. i) differences between the patentee and the infringer in the way to conduct business activities (different conditions in the market), ii) existence of a competing product

in the market, iii) the infringer's marketing efforts (branding, advertisements), and iv) performance of the infringing goods (functions, designs and other features not covered by the patented invention). (As "circumstances unfavorable to the sale" in the proviso to Paragraph (1), the decision by a Division of the IPHC dated June 1, 2016 (2015 (Ne) 10091 "Bag-Breaking Machine case")¹⁷ includes the same grounds¹⁸ as in i) to iv) shown above. In the "Carbon Dioxide-Containing Viscous Composition" case, the grounds for the overturning of presumption under Paragraph (2) are the circumstances i) to iv) as under the proviso to Paragraph (1).

Since the two Grand Panel decisions lists the circumstances i) to iv) as factors to be considered for the overturning of presumption under both the proviso to Paragraph (1) and Paragraph (2), there seems to be no difference in this respect between them. In fact, there is an IPHC decision in which the values of damage presumed under Paragraphs (1) and (2) are reduced by the same percentage (IPHC decision dated March 26, 2014 (2013 (Ne) 10017, 10041 "Open Fermentation Treatment Apparatus" case)¹⁹. However, compared to Paragraph (2) under which the value of damage is calculated by multiplying the profits from the infringer's product by the sales quantity, under Paragraph (1), the value of damage is calculated by multiplication of numbers that are not directly related to each other, i.e. the profits from the plaintiff's product and the sales quantity of the defendant's product. As a result, it may be more often necessary to adjust the value by the overturning of the presumption when a calculated value would be detached from reality. If the plaintiff's

product is superior in quality and the defendant's product is its cheaper version, it is unlikely that the plaintiff will be able to sell the same number of products as that of defendant's products that has actually been sold even if there is no infringing act. Therefore, certain circumstances such as "1) differences between the patentee and the infringer in the way to conduct business activities (different conditions in the market) are probably more often considered as grounds for the overturning of presumption under Paragraph (1).

As indicated by "e.g.," the circumstances i) to iv) above are given as an example, and therefore, there may be other circumstances that are considered as grounds for the overturning of presumption. According to the "Carbon Dioxide-Containing Viscous Composition" case, if the patented invention is used only in a part of the infringing goods, this fact can be considered as grounds for the overturning of presumption. However, it is reasonable to consider all relevant factors, including the significance of that part for the infringing goods, the attractiveness of the patented invention, etc. Therefore, other factors than the "circumstances unfavorable to the sale" under the proviso to Paragraph (1) such as the significance of the characteristic part for the plaintiff's product and other features provided by the plaintiff's product and their attractiveness could also be considered as part of the "circumstances unfavorable to the sale" in the "Beauty Instrument" case²⁰.

In the "Carbon Dioxide-Containing Viscous Composition" case, the IPHC does not accept facts as any of the circumstances i) to iv) or other factors asserted by the infringer (e.g. the exist-

ence of another patent in the infringer's product, the indication of the patent, etc.). This shows the IPHC's intention to determine the value of damage to be larger in general by strictly judging the assertion and proof provided by the infringer and by narrowly interpreting the overturning of presumption under Paragraph (2).

In the "Beauty Instrument" case, in contrast, the IPHC determines that the percentage of the presumed value to be overturned is 80% in total by taking into consideration the features of the plaintiff's product and the differences from the defendant's product, which correspond to "i) differences between the patentee and the infringer in the way to conduct business activities etc. (different conditions in the market)" mentioned above. In view of the features of the plaintiff's product and the differences from the defendant's product in the "Beauty Instrument" case, such a degree of overturning of presumption under Paragraph (1) is not surprising.

Both in the Grand Panel decision and its original decision, the sales quantity is reduced by 50% by taking into consideration the difference in price as "circumstances unfavorable to the sale." In the original decision, the court finds the contribution rate to be 10% (deduction of 90%) by considering such factors as the significance of the part that contains the patented invention for the entire product and the existence of alternative technology. However, the IPHC reduces the profits by only 60% by partially overturning the presumption under Paragraph (1), and clearly denies the applicability of a contribution rate due to the absence of explicit provisions. In the Grand Panel decision, the factors considered as grounds for the overturning of presump-

tion are the significance of the patented invention for the plaintiff's product, other features provided in the product and their attractiveness. These factors are not so different from those in its original decision, but the calculated value of damage is four times larger in the Grand Panel decision. A main reason for this difference is that the IPHC and the lower court differently evaluate what percentage of the profits from the plaintiff's product would have been brought by the patented invention (In fact, the lower court finds the percentage to be smaller, mentioning the existence of alternative technology). It may also be possible to explain this difference in connection with the burden of proof:

According to the original decision, the percentage of the profits brought by the patented invention is at least 10% (deduction of 90%), while the IPHC thinks that the percentage of the profits brought by other reasons than the patented invention is at least 60% and determines the remaining 40% (with no further deduction) to be the value of damage, although it is hard to say that these figures are fully substantiated. In other words, such a difference may be caused by whether the amount brought by the patented invention and/or other reasons is regarded as the plaintiff's profits or the defendant's profits.

In view of the above, the two Grand Panel decisions shows the IPHC's intention to determine the value of damage to be larger, compared to conventional practices, by strictly interpreting the overturning of presumption and by not easily reducing the value of damage based on a contribution rate.

Even after the Grand Panel decision on the "Waste Storage Device" case,

some of the Divisions at the Tokyo and Osaka District Courts determined the value of damage by calculating contribution rates, and other, by overturning the presumption. However, it is expected that a unified practice will be established in the future and all Divisions will not easily allow the presumption to be overturned by strictly judging the assertion and proof provided by the infringer.

4-4. Types of expenses to be deducted from sales when calculating profits under Article 102 (1) and (2) of the Patent Act

There are generally the following theories about what the profits are (or what should be deducted from the sales) under Paragraphs (1) and (2) of Article 102²¹:

- (i) Net profits: The “profits made by the infringer from the infringing act” are determined by deducting all expenses (including purchases, sales commission, transportation costs, advertising costs, rent etc.) from the sales.
- (ii) Gross profits: The “profits made by the infringer from the infringing act” are determined by deducting manufacturing costs and purchases from the sales.
- (iii) Marginal profits: The “profits made by the infringer from the infringing act” are the amount obtained by manufacturing and selling a certain number of infringing goods without additional costs.
- (iv) Deduction of direct costs: The “profits made by the infringer from the infringing act” are the amount calculated by deducting additional costs that are directly related to the manufacture and sale of the product, from

the sales.

This classification of theories is merely an example. According to another opinion, the two theories “(iii) marginal profits” and “(iv) deduction of direct costs” are not clearly distinguished from each other, and they are classified as marginal profits (contribution margins)²². There is also an opinion that this is an issue of what is asserted and proved in individual cases in relation to “variable costs”²³. However, I think the classification shown above is easier to understand when I explain the two Grand Panel decisions. Since the Grand Panel holds that the amount of profits per unit should be “marginal profits calculated by deducting additional costs that are directly related to the manufacture and sale,” it is appropriate to say that these two decisions adopt the theory (iv) not (iii) according to the classification shown above.

Although the theories (iii) and (iv) are similar, more cost items are deductible when the theory (iv) is adopted because even a fixed cost is deductible when it is directly related to the infringing goods. For example, when a mold is used to make the product, the amount of money to buy the mold is indispensable for the sale of the product, but this amount does not vary depending on the quantity of the product manufactured. It is a fixed cost, not a variable cost in a strict sense. Therefore, this cost is not deductible when the theory (iii) is adopted but it is deductible according to the theory (iv). Since a mold usually costs millions of yen, it is often necessary to make a managerial decision on whether to make such a large investment from the viewpoint of an adequate return on investment. If this cost is not deducted

from the sales on the ground that it is a fixed cost, it will be contrary to conventional wisdom in the manufacturing industry. Moreover, if the infringer makes a direct investment as a cost indispensable to make the goods, the inclusion of this amount in the profits made from the infringing act would not be reasonable, judging from the purpose of Paragraph (2). Consequently, the two Grand Panel decisions that adopt the theory (iv) are appropriate²⁴.

It seems that many of the recent court decisions on the calculation of the value of damage adopt the theory (iv), as in the case of the two Grand Panel decisions. For example, in the IPHC decision dated April 28, 2015 (2013 (Ne) 10097, “Lid” case)²⁵, the court holds, “Article 102 (2) of the Patent Act provides that if the infringer made a profit from the infringing act, the amount of profits is presumed to be the value of damage incurred by the patentee. If a cost is directly related to the manufacture and sale of the infringing goods, it is not reasonable not to deduct this amount on the ground that it is a fixed cost. If the mold designed to manufacture the defendant’s products cannot be diverted to another purpose (of making other products that would not infringe the patent), the cost to make the mold should be deducted as a direct fixed cost for manufacturing and selling the defendant’s products.” This decision seems to be in line with the Grand Panel decisions.

4-5. Requirements for applicability of Article 102 (1) and (2) of the Patent Act

There is a point of debate over whether the working of the patented invention by the plaintiff (patentee)

should be required for the application of Paragraph (1) or (2) of Article 102. Although this was not a point of dispute in the two Grand Panel decisions, because the plaintiff was selling patented products in both cases, I will briefly explain the court’s comments in the two decisions related to this point.

According to the Grand Panel decision on the “Beauty Instrument” case, the product of the patentee etc. whose sales quantity is affected by the infringing act, i.e. the product of the patentee etc. that has a competitive relationship with the infringing goods can be regarded as “the goods the patentee etc. could have sold but for the infringement.” It clearly states that the sale of the patented product is not necessarily required, which is consistent with many past cases including the “Bag-Breaking Machine case” mentioned above. What is meaningful is that such an opinion is expressed in a Grand Panel decision.

Grand Panel decision in the “Carbon Dioxide-Containing Viscous Composition” case holds, “Article 102 (2) should be applicable if there are circumstances due to which the patentee could have made a profit but for the infringer’s act of infringing the patent,” which also makes it clear that the sale of the patented product is not necessarily required. The “circumstances due to which the patentee could have made a profit but for the infringer’s act of infringing the patent” includes not only the sale of a competing product by the patentee but also other circumstances. This opinion is not new because a similar opinion was already expressed in the above-mentioned Grand Panel decision on the Bag-Breaking Machine case.

4-6. Article 102 (3) of the Patent Act

The Grand Panel decision in the “Carbon Dioxide-Containing Viscous Composition” case holds that, under Paragraph (3) of Article 102, the value of damage should basically be calculated by multiplying the sales of the infringing goods by the reasonable royalty rate. This is not a different opinion compared to past decisions or conventional practices.

Then, referring to the revision by Law No. 51 of 1998 in which the word “ordinarily” was removed from the text of Paragraph (3) (*...equivalent to the amount of money the patentee would have been ordinarily entitled to receive for the working of the patented Invention...*), the court states, “the rate of reasonable royalties should naturally be higher than an ordinary rate when it is determined afterwards for an act of patent infringement.” As has been said, however, since the revision of 1998, it has been rare that the reasonable royalty rate is determined to be higher than the going market rate, and in many cases, it is equal to or lower than the ordinary rate²⁶. In effect, this Grand Panel decision already contained the gist of Article 102 (4) of the revised Act as described in the section 2 above, in that this decision allowed the value of damage to be calculated at a rate that is higher than an ordinary rate for a patent license, on the assumption that there has already been infringement. It is expected that, under Paragraph (4), there will be more cases where the court decides on a reasonable royalty rate that is higher than an average rate (approx. twice the average rate) in each technical field.

As factors to be considered when calculating the reasonable royalty rate, the court says, “a reasonable rate should be determined by giving comprehensive

consideration to: (i) a royalty rate in an actual license agreement on the patented invention or a going rate in the industry if the actual rate is unknown, (ii) the value of the patented invention, i.e. its technical details or importance, the possibility of being substituted with something else, (iii) how the patented invention would be infringed or would contribute to an increase in the sales or profits when used in the relevant product, (iv) a competitive relationship between the patentee and the infringer, the patentee’s business policy, and other circumstances that have been revealed in the course of this trial. Although there may be other factors to be considered when calculating the rate, the factors (i) to (iv) above are by and large consistent with the bases for calculation of a contribution rate in the past court decisions. There seem to be no opposing opinions in particular if these factors are taken into consideration when calculating the rate under Paragraph (3).

As to “(iii) how the patented invention would be infringed or would contribute to an increase in the sales or profits when used in the relevant product,” there are two theories: (a) a contribution rate should be treated as one of the factors to be considered when calculating a reasonable royalty rate (non-separation theory) and (b) a contribution rate should be considered separately after the calculation of reasonable royalties (separation theory). In the vast majority of the past court cases, the non-separation theory is adopted²⁷, and the two Grand Panel decisions also rely on this theory, which indicates the IPHC’s negative attitude toward the reduction in the amount of damages based on a contribution rate. When concluding a patent license agreement, the royalty rate is determined in the same

manner, by taking various factors into consideration. There is no need to treat the degree of contribution separately from the rate. Consequently, the calculation of a reasonable royalty rate should be based on the non-separation theory, as in the Grand Panel decision on the Carbon Dioxide-Containing Viscous Composition” case²⁸.

The court found the rate to be “not less than 10% when it is calculated afterwards for an act of patent infringement by taking into consideration the circumstances that have been revealed in the course of this trial.” This decision is really impactful as guidance on IP practices in the future. In reality, there were cases where the reasonable royalty rate was calculated to be 10% but such cases are very rare, 2% to 5% on average. If the total amount of sales was large, the rate was less than 1% in not a few cases^{29,30}.

The Grand Panel decision in the “Carbon Dioxide-Containing Viscous Composition” case says that, in light of the details of the Patents 1 and 2, the rate should be the same when calculating reasonable royalties whether it is based on one of the two patents or both of them. Since the technical features of Patents 1 and 2 seem to be the same, this decision is appropriate. There are also past court decisions where a contribution rate is calculated for each of the patents: Tokyo District Court decision dated April 24, 2007 (2005 (Wa) 15327 and 2006 (Wa) 26540)³¹, and Tokyo District Court decision dated September 29, 2005 (2003 (Wa) 25867)³². However, as can be seen from “in light of the details of the Patents 1 and 2”, the Grand Panel considers to what extent these two rights are related to each other. It does not seem that the Grand Panel intends to disallow an

increase in the reasonable royalty rate (by calculating the rate for each of the patents) as in said district court decisions, when the two patents have little relationship or they are found to be created separately from each other and it is found that there are two or more patent infringements.

5. Impact of two Grand Panel decisions and future direction

As has been criticized³³, when calculating the value of damage under Paragraph (1) or (2) of Article 102, the value of damage tended to be quite small compared to other countries due to the calculation of a contribution rate, etc., and the basis for calculation of a contribution rate was ambiguous. In not a few court decisions on the calculation of a reasonable royalty rate under Paragraph 102 (3), if the amount of sales was large, the rate was kept low and the awarded amount of damages was far from being sufficient.

More recently, however, there have been an increasing number of decisions in which the court does not allow the value of damage to be easily reduced when calculating it under Paragraph (1) or (2), by adopting the concept of “overturning of the presumption” instead of a contribution rate. The two Grand Panel decisions express this attitude more clearly. In relation to the calculation of a reasonable royalty rate under Paragraph (3), the Grand Panel decision specifies the points to note and the factors to be considered. Therefore, these two decisions play a significant role in unifying the criteria for decisions rendered not only by the IPHC, but also by Tokyo and Osaka District Courts. These unified criteria are expected to correct disparities in decisions

rendered by the divisions of the same court in relation to the calculation of the value of damage under Paragraphs (1) to (3), to allow the parties concerned to predict the results more easily, and to increase the amount of damages awarded for patent infringement. In fact, the Tokyo District Court recently awarded more than 5 billion yen of damages to Fujifilm Holdings Corporation in an infringement lawsuit filed against Sony Corporation (in March 2019). This decision is also in line with the trend toward larger amounts of damages established mainly by the two Grand Panel decisions³⁴.

In relation to an “act of creating confusion with a well-known indication” (in Article 2(1)(i) of the Unfair Competition Prevention Act (UCPA), corresponding to “passing off” in other countries), the court found the reasonable royalty rate to be over 10% by calculating the value of damage under Article 5 (3) of the UCPA (corresponding to Article 102 (3) of the Patent Act), stating, “the rate of reasonable royalties should naturally be higher than an ordinary rate when it is determined afterwards for an act of unfair competition” in the IPHC decision dated January 29, 2020 (2018 (Ne) 10081, 2018 (Ne) 10091 “Mario Kart” case)³⁵. In this case, the value of damage determined by the IPHC (over 100 million yen) was nearly ten times larger than the value in the first instance decision, where the amount of damages awarded in the first instance decision (Tokyo District Court) was 10 million yen. (Note that the amount awarded by the IPHC was 50 million yen, due to a difference in the damages at issue in each instance.) Traditionally, such a large value of damage was extremely rare for infringement of an

IP right other than a patent. This means that these IP fields also follow the trend toward larger amounts of damages.

Although not directly related to the two Grand Panel decisions, it seems necessary to consider introducing punitive damages that are available in the US, the UK, and other countries, for the purpose of ensuring an adequate amount of damages and a strong base for protection of intellectual property. A punitive damage system has recently been introduced in some East Asian countries. In South Korea, it is now possible to award up to three times the calculated value of damage³⁶. In China, a draft revision under consideration would make it possible to increase damages by one to five times as much as the calculated value of damage, depending on circumstances, in the case of intentional infringement³⁷. The introduction of such a system is intended to cope with the current situation where an aggrieved party may not be adequately compensated despite a highly challenging and costly IP lawsuit and where there is an increasingly widespread view that it is better to make profits by infringing a patent and pay damages when accused of infringement, than to pay license fees. Such a situation is true to a certain extent in Japan³⁸. A punitive damage system is not well accepted in Japan, where there is a Supreme Court decision that the awarding of punitive damages would be contrary to public order. Moreover, to introduce a punitive damage system, not only the IP laws but also the notion of torts (Article 709 of the Civil Code) will have to be revised, which seems considerably difficult to achieve.

However, according to the Railway Operation Act and the Railway Transport Regulations, a fare evader may be re-

requested to pay his/her fare for the boarding section and an additional charge of up to twice the fare (in total, up to three times the fare). According to the Labor Standard Act, the court may order an employer to make a payment of the unpaid wages and an additional payment of the amount identical to the unpaid wages (in total, twice the amount of wages). In this way, some Japanese laws provide for the payment of more than an actual amount to be paid in order not to allow a wrongdoer to escape a penalty in a civil case³⁹. Given the difficulty of identifying an infringing act and of bringing a costly and challenging lawsuit in the fields of intellectual property, there also seems to be a justifiable reason for the payment of more than an actual amount to be paid in order not to allow an infringer to infringe a patent with virtual impunity.

I hope that, based on the two Grand Panel decisions, there will be more in-depth discussions on how we should revise the intellectual property system in Japan to achieve adequate protection of IP rights and better control by IP laws.

(Notes)

¹ There are also cases where an IPHC Grand Panel decision has been overturned or corrected by the Supreme Court. For example, in the “Pravastatin” case (Grand Panel decision dated January 27, 2012), the IPHC put forward a new theory, according to which product-by-process claims are classified into genuine and non-genuine product-by-process claims depending on the possibility or difficulty of defining a product not by manufacturing methods, and the scope of right to each type of claim is construed by different criteria. This decision attracted a great deal of attention. However, the Supreme Court decision dated June 5, 2015 completely denied the said theory and overturned the original decision, stating that the claim should basically be construed based on

the “product identity theory” and that the possibility or difficulty of defining a product not by manufacturing methods should be taken into consideration when determining the clarity requirement. Currently, this Supreme Court decision is adopted as a standard practice, while the said Grand Panel decision has virtually no meaning.

² In my personal view, the effect of Article 102 (1)(ii) and (4) of the revised Act could be achieved in a case brought under the former Act, as one could assert an interpretation of Article 102 (1) and (3) of the former Act that is based on the amendments of the revised Act in a court case that was filed before the entry into force of the revised Act.

³ As an example of calculation methods other than those provided in Paragraphs (1) to (3) of Article 102, it is possible to calculate the value of damage by multiplying the total sales quantity of plaintiff’s product by the amount of difference in marginal profits, when the plaintiff had to lower the price of their product due to the sale of the infringing goods. In this case, however, none of the presumptions provided in Paragraph (1) or (2) will be allowed and the plaintiff will be required to prove a causal relationship to an exacting standard. In reality, it would seem to be very difficult to obtain a damages award by such a method.

⁴ Source: https://www.courts.go.jp/app/files/hanrei_jp/242/088242_hanrei.pdf

⁵ As to the contribution rate, the court ruled, “the bearings are part of the beauty instrument and invisible to the consumers. As can be seen from the fact that the defendant changed the design of the bearings after the filing of this lawsuit, there is an alternative technology that can support the rollers to ensure their smooth rotation. Therefore, the degree of contribution of Invention 2 to the sales of the defendant’s product is not high. Considering all of the said factors, its contribution rate should be 10%.” As to the “circumstances unfavorable to the sale,” the court ruled, “considering the points mentioned above, especially, the large difference in price between the plaintiff’s product and the defendant’s product, it is reasonable to conclude that, due to these circumstances, the plaintiff would not have been able to sell a quantity of their products comparable to 50% of the quantity of the products transferred by the defendant.” In this way, the profits are reduced twice ($0.1 \times 0.5 = 0.05$).

- ⁶ According to *Contemporary IP Laws - Practices & Problems, Collection of Treatises to Honor Mr. Toshiaki IIMURA*, by Ryuichi SHITARA et al., JIPII, p. 750 [Kazuhiko YOSHIDA]: “If the defendant’s product has a feature that attracts customers (and this feature does not exist in the plaintiff’s product), and the patentee claims compensation for the damage under Article 102 (1), it is necessary to consider to what degree the patented invention does not contribute to the infringer’s sales (which is to be asserted by the infringer) in accordance with the proviso to Article 102 (1).”
- ⁷ According to *Lecture on Contemporary Intellectual Property Laws II - Development of practical aspects of IP Laws* (by Ryu TAKABAYASHI et al., NIPPON HYOSHAKU SHA, pp.191-192 [Kazuhiko YOSHIDA]), the “total profit - non-contribution rate” theory (that allows the profits to be reduced by partially overturning the presumption) is adequate: “According to Article 102 (2), ‘the amount of the defendant’s profits made from the infringing act’ has to be asserted and proved by the plaintiff. The contribution rate, therefore, should probably be asserted and proved by the plaintiff. Since this theory is supported by the provision, it may work. However, it is a little bit too broad in meaning if this provision is interpreted as requiring proof of a contribution rate as well as a causal relationship between the “infringing act” and the “profits made by the defendant.”
- ⁸ *New Annotated Patent Law 2nd Edition* (by Nobuhiro NAKAYAMA et al., SEIRIN-SHOIN p.1959 [Kei IIDA]), “In view of the relative difficulty of proving the rate of (non-) contribution of a patented invention and the importance of ensuring the impartiality of the decision to the parties concerned, the use of “total profit - non-contribution rate” theory, instead of the contribution profit theory, will be justified for the purpose of relieving the difficulty of providing proof by a patentee etc.”
- ⁹ In reality, it is extremely difficult to accurately prove whether a contribution was made or not and to what percentage of the total profits. Therefore, when the burden of proof is strictly divided, sufficient proof is not provided in most cases before the result (value of damage) is determined.
- ¹⁰ Source:
https://www.courts.go.jp/app/files/hanrei_jp/175/082175_hanrei.pdf
- ¹¹ The court found: 1) In September 2003, the defendant started to sell their rice cake products, emphasizing in advertisements that, with slits in its top, bottom, and side faces, their pre-cut rice cakes become crispy and fluffy when grilled, 2) Around 2005, packaged rice cakes having slits on their surface became widely known to the consumers, which contributed to an increase in the defendant’s sales, and 3) Starting in fiscal 2010, all of the defendant’s rice cake products had slits. “In view of these facts, it is found that a pre-cut rice cake cooks well due to the slits made on its perpendicular side faces, which makes more consumers select the defendant’s products (1 to 5 in the attached List of Articles) and contributes substantially to an increase in the sales (Exhibits Ko 4, 21 to 26, 43, 51, 56-1 to 22, 60 to 63; Otsu 152, 153, 164 to 167). Considering the value or importance of the infringing part in the defendant’s products (1 to 5 in the attached List of Articles), its power to attract customers, the consumers’ motive for selecting/buying the products etc., the percentage of the profits from the defendant’s products (1 to 5 in the attached List of Articles) brought by the patented invention should be 15%.”
- ¹² Source:
https://www.courts.go.jp/app/files/hanrei_jp/009/083009_hanrei.pdf
- ¹³ In relation to the interpretation and the applicability of Paragraph (2), the court states, “When claiming compensation for damage incurred by a patentee due to patent infringement under the Civil Code, the patentee has to assert and prove the occurrence and value of damage, a causal relationship between the damage and an infringing act. Despite the difficulty of proving the value of damage, the aggrieved party may not be adequately compensated. Article 102 (2) is intended to relieve this difficulty by presuming any profits made by the infringer to be the value of damage incurred by the patentee. Given the purpose of Article 102 (2) and the way it works, there are no rational grounds on which the requirements for its applicability need to be particularly strict.” “Therefore, Article 102 (2) should be applicable if there are circumstances due to which the patentee could have made a profit but for the infringer’s act of infringing the patent, and circumstances such as differences between the patentee and the infringer in the way to conduct business activities should be taken into consideration as grounds for the overturning of presumed value of damage.”

- ¹⁴ Although Paragraph (2) does not contain such a proviso as in Paragraph (1), the value of damage is presumed in the same manner under this paragraph. Therefore, if the infringer successfully provides proof to the contrary (asserting and proving that the presumed value of damage is, in reality, smaller or non-existent), it is inevitable that this presumption is entirely or partially overturned. This interpretation will not pose any legal issues, in particular. In *Intellectual Property Litigation* (by Makiko TAKABE, SEIRIN-SHOIN pp. 291-292 [Kenji AMANO]),” there is a discussion citing the above-mentioned Grand Panel decision on the “Waste Storage Device” case: “The value of damage presumed under Paragraph (2) is quantitative and it is considered theoretically possible to quantitatively overturn the presumption in part. Therefore, it should be permitted to partially overturn the presumption, and this is actually established as a practice.”
- ¹⁵ In this decision, “contribution rate” and “grounds for overturning of presumption” are discussed separately. As to the “contribution rate,” the court states, “This is an invention of a metal cart as a whole. Its aesthetic appearance and tip-resistant function that produce an advantageous effect of the invention are brought about by the shape of the corners of its shelf boards that is designed to fit its poles. It is found that the patented invention is used in the appellee’s product as a whole, and the patented invention makes a great contribution to the features of the appellee’s product.” As to the latter, the court denies the possibility of overturning the presumption on the grounds of business scales, but “Since the appellee’s product was displayed in their catalog, it was unlikely that customers would buy it simply because of its aesthetic appearance and tip-resistant function. Moreover, many other manufacturers sell metal carts (Exhibits *Otsu* 171-1 to 71-15). It is difficult to conclude that the appellant could have sold such a number of their products that is comparable to all of the appellee’s products sold by the appellee. (However, a large percentage of reduction by partially overturning the presumption is not allowable, because, as mentioned above, the appellee’s product has features that are not found in other manufacturers’ metal carts, and therefore, it may not be equivalent to or substituted by competing products.) Considering all of said factors, the percentage of reduction should be 20%.”
- ¹⁶ Source:
https://www.courts.go.jp/app/files/hanrei_jp/79/9/084799_hanrei.pdf
- ¹⁷ Source:
https://www.courts.go.jp/app/files/hanrei_jp/92/5/085925_hanrei.pdf
- ¹⁸ The court holds, “According to the proviso to Article 102 (1), the infringer bears the burden of proving the existence of “circumstances” due to which the patentee etc. would have been unable to sell a quantity comparable to all or part of the transferred quantity, and if it is successfully proved, the value of damage corresponding to that quantity will be deducted. The said “circumstances” refer to those that impede a sufficient causal relationship between the infringing act and a decrease in the sales of the patentee’s product, e.g. the existence of a competing product in the market, the infringer’s marketing efforts (branding, advertisements), performance of the infringing goods (functions, designs and other features not covered by the patented invention), and different conditions in the market (price, how the products are sold).”
- ¹⁹ Source:
https://www.courts.go.jp/app/files/hanrei_jp/07/7/084077_hanrei.pdf
In the section “(3) Reduction of value of damage by application mutatis mutandis of the proviso to Article 102 (1) of Patent Act,” the court rules, “The corrected Invention 2 is an improvement invention of the Invention 1. The characteristic part of this invention is the V-shaped scoop. The other components of the Open Fermentation Treatment Apparatus are found invalid due to the lack of inventive step when compared to the invention KS7-12. This should be considered as “circumstances unfavorable to the sale” in the proviso to Article 102 (1)... Considering the factors mentioned above, it is reasonable to say that there were circumstances due to which the plaintiff (Nikkan Engineering) would have been unable to sell a quantity comparable to 80% of the apparatuses sold by the defendant. In the section “(4) Reduction of value of damage by application mutatis mutandis of Article 102 (2) of Patent Act,” the court rules, “As in the section (3) above, the percentage of the amount reduced by partially overturning the presumption should be 80%. Consequently, the value of damage under Article 102 (2) will be 994,173 yen (4,970,869 x 0.2, rounded down to the closest whole number).”
- ²⁰ However, other features provided by the plaintiff’s product and their attractiveness are

not negative factors for the sale of the plaintiff's product. Therefore, in the "Beauty Instrument" case, it seemed theoretically difficult to consider these factors as part of the "circumstances due to which the patentee would have been unable to sell a quantity comparable to part or all of the quantity of the product transferred by the infringer.

²¹ *Theory and Practice of IP Law Vol.2* by Toshiaki MAKINO et al. SHINNIPPON-HOKI Pub. Co. Ltd., pp. 281 - 286 [Izumi YOHKAWA]

²² *New Annotated Patent Law 2nd Edition* (by Nobuhiro NAKAYAMA and Naoki KOIZUMI, SEIRIN-SHOIN p.1939 [Kei IIDA]), "Now in the majority of cases, the profits refer to marginal profits (or contribution margin) that are the infringer's sales minus the variable costs, which increase with an increase in the amount of sales, (and minus the direct (individual) fixed costs, which are directly related to the sales).

²³ *Lecture on Contemporary Intellectual Property Laws II - Development of practical aspects of IP Laws* (by Ryu TAKABAYASHI et al., NIPPON HYOSHAKU SHA, p.166 [Kazuhiko YOSHIDA]), "The 'profits' in Article 102 (1) refer to marginal profits and there is virtually no debate about it. A marginal profit is calculated by deducting expenses (variable costs) that increase with an increase in the sales quantity of the infringing goods, from the sales of the infringing goods. The details of variable costs may vary in individual cases, depending on what is asserted and proved."

²⁴ Among the deductible cost items in the decisions, the purchases, the material/raw materials, and the sales commission should be regarded as variable costs, while the R&D and advertisement costs should be regarded as direct fixed costs that are directly related to the manufacture and sale of the products.

²⁵ Source:
https://www.courts.go.jp/app/files/hanrei_jp/071/085071_hanrei.pdf

²⁶ Reasonable royalty rates under Paragraph (3) are often determined by reference to average rates in individual technical fields listed in *Royalty Rates [5th Edition] Databook for Use in Technical Agreements* (by JIII Research Center, JIPII).

²⁷ *Contemporary IP Laws - Practices & Problems, Collection of Treatises to Honor Mr. Toshiaki IIMURA*, by Ryuichi SHITARA et al., JIPII, pp. 774-777 [Kazuhiko YOSHIDA]

²⁸ *Contemporary IP Laws - Practices & Problems, Collection of Treatises to Honor Mr. Toshiaki IIMURA*, by Ryuichi SHITARA et al., JIPII, p. 774 [Kazuhiko YOSHIDA]: "Since a contribution rate should be taken into consideration when calculating a rate of royalties, the non-separation theory seems more suitable unless exceptional circumstances exist."

²⁹ The royalty rate in the original decision by the Osaka District Court is probably lower than the rate determined in this decision, although the exact rate is unknown. According to the original decision, the court considers the fact that the average rate in judicial decisions is 6.1% and that this case has led to an infringement lawsuit. In the original decision, the value of damage calculated under Paragraph (2) is larger for the products of all infringers, while in this decision, the value of damage under Paragraph (3) is larger than under Paragraph (2) for the products of some of the infringers.

³⁰ In the IPHC decision dated April 24, 2014 (2013 (Ne) 10086 (Source: https://www.courts.go.jp/app/files/hanrei_jp/201/084201_hanrei.pdf), the amount of damages was 330 million yen, as in the lower court decision on a case filed by an independent inventor against Apple Japan, Inc. This amount is only about one two-thousandth of the market size (over 600 billion yen) of the products involved in this infringement case. The plaintiff argued that the rate should be 10%.

³¹ Source:
https://www.courts.go.jp/app/files/hanrei_jp/601/034601_hanrei.pdf

In this decision, the court rules, "The royalty rate, used as a basis for calculation of reasonable royalties that are equivalent to the value of damage in this patent infringement case, should be 5% and 3% for the Patent Rights 1 and 2, respectively."

³² Source:
https://www.courts.go.jp/app/files/hanrei_jp/359/009359_hanrei.pdf

In this decision, the court rules, "The royalty rate would be not less than 10% when the Devices and Patented Inventions 3 and 4 were licensed to a third party, not less than 7% when the Devices and Patented Invention 3 were licensed, and not less than 2% when Patented Invention 3 were licensed."

³³ In AIPPI's Study Question 2017 ("Quantification of monetary relief"), the Japanese Group commented (answering Q12, "Are there aspects of these laws that could be improved?")

in Section II. Policy considerations and proposals for improvements of your Group's current law): "As compared to other countries, the value of damage tends to be kept fairly low due to grounds for a reduction of the value, including a contribution rate, whose calculation base is quite unclear. Because of such grounds for reduction, the aggrieved party is not adequately compensated in many cases, considering the time and money needed for proceedings. In fact, infringement lawsuits are considerably few as compared to other countries. In our opinion, the reduction of the value of damage based on a contribution rate or other grounds should be made in a more restrained manner. The amount of damages should be determined on a calculation base that is clear and appropriate to each case."

³⁴ 2018 (Wa) 27979

³⁵ Source:

https://www.courts.go.jp/app/files/hanrei_jp/285/089285_hanrei.pdf

³⁶ Source:

<https://www.jetro.go.jp/world/asia/kr/ip/ipnews/2018/181210.html>

³⁷ Source:

http://knpt.com/contents/china_news/2019.01.22.pdf#search=%27%E4%B8%AD%E5%9B%BD+%E6%87%B2%E7%BD%B0%E7%9A%84%E6%90%8D%E5%AE%B3%E8%B3%A0%E5%84%9F%27

³⁸ The largest amount of damages awarded by a court for patent infringement is 7,416,680,000 yen in a lawsuit filed by Aruze Corporation against Sammy Inc. (but the damages were finally not awarded because the relevant patent was invalidated later at the JPO and this Tokyo District Court decision was overturned by the appeal court). In Japan, there have been only a few decisions (including said case) in which damages of over one billion yen are awarded. In the US, damages of over 10 billion yen have been awarded in many cases and even more than 100 billion yen has been awarded in two cases so far.

(Source:

https://www.hatsumei.co.jp/column/index.php?a=column_detail&id=74)

³⁹ According to *Lecture on Contemporary Intellectual Property Laws II - Development of practical aspects of IP Laws* (by Ryu TAKABAYASHI et al., NIPPON HYOSHAKU SHA, pp.209-210 [Kazuhiko YOSHIDA]): "the Supreme Court clearly denies punitive damages and even comments that it is contrary to public order in Japan

(Supreme Court 2nd Petty Bench decision, July 11, 1997, *Minshu* Vol.51, No.6, p.2573)... However, since an additional payment is allowed in Article 114 of the Labor Standard Act, it is considered possible to provide for punitive damages in the form of an additional payment. Anyway, the concept of punitive damages is quite unfamiliar in Japan. It is not impossible to introduce it into statutory law, but sufficient discussion will be needed first."