



JONES DAY
COMMENTARY

JAPAN'S IP HIGH COURT RELAXES REQUIREMENTS TO PROVE LOST PROFITS TO FAVOR PATENT OWNERS IN PATENT INFRINGEMENT SUIT

On February 1, 2013, the Intellectual Property High Court of Japan (“IP High Court”) issued an *en banc* decision in *Sangenic Intl. Ltd. v. Aprica Children's Products Inc.* (hereinafter the “Aprica Case”). This is the seventh *en banc* decision of the IP High Court. The case concerned application of a provision in the Patent Act that provides for a presumption of damage amounts in patent infringement cases. Specifically, at issue was whether a patent holder is required to practice the patented invention in suit in order for Article 102, Paragraph 2 of the Patent Act to be applied, which presumes the amount of profits earned by the defendant to be the amount of damages sustained by the plaintiff.

On this question, the IP High Court, dissenting from the mainstream opinion in court precedents, held that the patentee was not required to practice the patented invention for Article 102, Paragraph 2 of the Patent Act to be applied. The IP High Court's decision will have a significant impact, especially for

patentees who seek to gain higher amount of damages. The case has been reportedly appealed by Aprica to the Supreme Court.

A brief introduction to the provision at issue in the Patent Act, a brief description of the factual and procedural background of the Aprica Case, and an analysis and discussion of the implications of the IP High Court decision follow.

ARTICLE 102, PARAGRAPH 2, OF THE PATENT ACT

As in most of the other jurisdictions under Japanese patent law, if a patent is infringed, the patentee is entitled to damages adequate to compensate for the infringement. The legal nature of such damages is considered to be damages under tort law, specifically, Article 709 of the Japanese Civil Code, which provides that “[a] person who has intentionally or

negligently infringed any right of others, or legally protected interest of others, shall be liable to compensate any damages resulting in consequence.” Therefore, in order to be awarded damages in a patent infringement case, the plaintiff is required, as a general rule, to assert and establish, in addition to the existence of an act of patent infringement by the defendant,² (a) the occurrence and amount of damage sustained by the plaintiff and (b) a proximate cause between the infringing act and the damages. In contrast with invasion of tangible property, the substance of damages arising from infringement of intellectual property, such as patents, is not a loss or damage to property, but a loss of profit which could have been gained by the property holder if there had been no infringing act. Therefore, elements (a) and (b) above are generally difficult to prove, and thus strictly requiring the plaintiff to prove these elements would result in diminished protection for patent owners.

In light of the above, the Patent Act provides for some modifications to the tort law principle on the burden of proof as to damages. Specifically, Article 102 of the Act provides for: (i) the amount of plaintiff’s profit per unit of articles which would have been sold by the plaintiff if there had been no such act of infringement multiplied by the quantity of articles sold by the defendant to be the amount of damages sustained by the plaintiff subject to certain limitations (Article 102, Paragraph 1), (ii) the amount of profits earned by the defendant to be presumed to be the amount of damages sustained by the plaintiff (Article 102, Paragraph 2), and (iii) the amount of royalties the plaintiff would have been entitled to receive from the defendant for its practicing the patented invention to be deemed to be the amount of damages sustained by the plaintiff (Article 102, Paragraph 3).

At issue in the instant case was, with regard to the presumption (ii) above, whether a patentee is required to practice its asserted patent invention in order for Article 102, Paragraph 2 of the Patent Act to be applied, which provides:

[w]here a patentee or an exclusive licensee claims against an infringer compensation for damage sustained as a result of the intentional or negligent infringement of the patent right or exclusive license, and the infringer earned profits from the act of infringement, the amount of profits earned

by the infringer shall be presumed to be the amount of damage sustained by the patentee or exclusive licensee.

It is settled by court precedents that this provision is interpreted to provide for a presumption of damage amount, not for presumption of the occurrence of damage to the plaintiff, which element is still required to be established by the plaintiff under the general principles of tort law.³ Court precedents were split on the issue of whether the presumption under Article 102, Paragraph 2 of the Patent Act, applies if the plaintiff on its own has not practiced the asserted patent invention. The majority of the court precedents required the plaintiff to practice the patented invention on its own.⁴ Many scholars seem to share the same view as the above courts’ majority view. In light of the impact on the patent litigation practice it may have, the IP High Court ruled an *en banc* decision to address the above question.

FACTUAL AND PROCEDURAL BACKGROUND OF THE APRICA CASE

In 2003, Sangenic International Ltd. (“Sangenic”), an English manufacturer and distributor of baby accessories under the brand names of Tommee Tippee and Nappy Wrapper, entered into a distributorship agreement (“Distributorship Agreement”) with Aprica Kasai Inc. (“Kasai”), a Japanese company engaged in the manufacture and sale of baby products, which is the predecessor of Aprica Children’s Products Inc. (“Aprica”), under which Kasai was appointed as the exclusive distributor of Sangenic’s products in Japan. Kasai sold diaper disposal system products and refill cassettes for the system manufactured by Sangenic under the Distributorship Agreement. Newell Rubbermaid Inc. (“Newell”), a global marketer of consumer and commercial products headquartered in the United States, acquired the business of Kasai in March 2008, and the rights and obligations of Kasai under the Distributorship Agreement were assigned to Aprica, which was incorporated by Newell in April 2008. Sangenic gave to Aprica a written notice not to renew the Distributorship Agreement and appointed Combi Corporation (“Combi”), Aprica’s competitor in the Japanese baby products market, as its new exclusive distributor.

Aprica began to import and to sell in Japan refill cassettes manufactured by a third party in China which were compatible with Sangenic's diaper disposal system products. Sangenic sued Aprica for infringement of its Japanese patent⁵ and Japanese design right⁶ and for breach of the Distributorship Agreement before the Tokyo District Court. Aprica filed an unfair competition counterclaim against Sangenic alleging that Sangenic had made false statements to Aprica's customers that Aprica's products infringed Sangenic's intellectual property rights.

In its decision,⁷ the Tokyo District Court found the infringement of one claim of the plaintiff's Japanese patent and awarded Sangenic damages as well as injunctive relief. The Tokyo District Court, however, held that a patentee was required to practice its patented invention on its own in order for Article 102, Paragraph 2 of the Patent Act to be applied, following the mainstream opinion in court precedents, and denied the applicability to the case, as evidence showed that the import and sale of Sangenic's products in Japan was handled by Combi as the exclusive distributor of Sangenic and Sangenic itself did not practice the patented invention. The court awarded approximately 21 million yen for damages as the amount of royalties to be paid by Aprica to Sangenic by applying Article 102, Paragraph 3 of the Patent Act. Both parties appealed to the IP High Court.

IP HIGH COURT'S DECISION

The IP High Court, while affirming the Tokyo District Court's finding of patent infringement, reversed the district court's decision on the applicability of Article 102, Paragraph 2 of the Patent Act, holding that the provision will apply only if there are circumstances that the patentee would have gained profits absent the infringer's infringing act, no matter whether the patentee practiced the patented invention on its own. In so holding, the court reasoned that the language of Article 102, Paragraph 2 of the Patent Act did not require the practice of the patented invention by the patentee and that the provision was intended to alleviate the plaintiff's burden of proof as to damages and it only provided for a rebuttable presumption of damage amount and therefore strict requirements should not be placed.

The court found that Sangenic had arranged to sell its refill cassettes in Japan through Combi, because Sangenic appointed Combi as its exclusive distributor and sold its refill cassettes manufactured in England to Combi under an exclusive distributorship agreement and Combi sold the refill cassettes to consumers in Japan. Further, the court found that Aprica, which imported and sold the third party's refill cassettes in Japan, was regarded to be a competitor not only to Combi but also to Sangenic in the Japanese market of refill cassettes for diaper disposal system and that the sales volume of Sangenic's refill cassettes had declined because of the sale of the third party's refill cassettes by Aprica. Based on such factual findings, the court held that Article 102, Paragraph 2 of the Patent Act should apply to this case, because there were circumstances that Sangenic would have gained profit if Aprica had not conducted the infringing act.

The court held that circumstances such as the difference in the plaintiff's and defendant's business manners, etc. were considered as circumstances to reverse the amount of damages presumed under this provision. On this point, Aprica made various arguments, but the IP High Court found that no such circumstances had existed. Consequently, the IP High Court, by applying Article 102, Paragraph 2 of the Patent Act, awarded Sangenic approximately 148 million yen for damages, about seven times as large an amount as awarded by the Tokyo District Court.

IMPLICATIONS OF IP HIGH COURT'S DECISION

The IP High Court's decision has expanded the scope of cases where Article 102, Paragraph 2 of the Patent Act is applicable for damage calculation, by clarifying that a patentee is not required to practice its patented invention in suit on its own in order for the provision to be applied. This is certainly good news for patent owners. Article 102, Paragraph 1 provides for an alternative for the plaintiff to establish lost profits as damages, but this provision calculates the damages based upon the plaintiff's profit margin, which many plaintiffs are reluctant to disclose. As the IP High Court has relaxed the requirements for applicability of Article 102, Paragraph 2, patent owners can more easily rely upon this provision to establish lost profits as damages

based upon the defendant's amount of profits, without disclosing its own profit margin. This IP High Court's decision is in line with the recent IP High Court's general pro-patent direction and the increasing number of cases ordering high amount of damages.

Now, the fundamental requirement for the provision to be applied is to show circumstances that the patentee would have gained profit if the infringer had not conducted the infringing act. Obviously, non-practicing entities are not entitled to rely upon this provision even under the relaxed requirements under this IP High Court's decision, but it is not yet clear in what circumstances such requirement is satisfied.

We need to await the decision by the Supreme Court, to which the case has been reportedly appealed by Aprica for the issue to be ultimately settled.

LAWYER CONTACTS

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ENDNOTES

- 1 IP High Court's decision of February 1, 2013, published at the IP High Court's website at http://www.ip.courts.go.jp/eng/hanrei/g_panel/index.html.
- 2 Under the general principles of tort law, a plaintiff should be required to assert and establish the defendant's culpability (negligence or scienter) in addition to the infringing act of the defendant. Article 103 of the Patent Act, modifying this principle, provides that an infringer of a patent right or exclusive license of another person is presumed negligent in the commission of the said act of infringement.
- 3 Tokyo High Court's decision of September 30, 2004, published at the website of Courts in Japan at <http://www.courts.go.jp/>.
- 4 Tokyo District Court's decision of September 22, 1962 (136 *Hanrei Times* 116), Tokyo High Court's decision of June 15, 1999 (1697 *Hanji* 96), etc.
- 5 Japanese Patent No. 4,402,165.
- 6 Japanese Design Registration No. 1,224,008.
- 7 Tokyo District Court's decision of December 26, 2011, published at the IP High Court's website at http://www.ip.courts.go.jp/eng/hanrei/g_panel/index.html.