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IP High Court awards patent damages pursuant to sections 102(2) and 102(3) of Patent Act

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Introduction

As in any jurisdiction, a great deal of patent litigation time in Japan is expended on the complex issue of damages. Compensation for past infringement in the form of damages is an important component of patentee relief.

The calculation of patent damages is governed primarily by section 102 of the Patent Act.⁽¹⁾ The difficulty of applying this complicated damages calculation, with the presumption of lost profits, has led to widespread complaints from patentees, and many patent infringement suits in Japan have debated its interpretation.

To address this issue, the damages calculation clauses in the Patent Act were amended in 2019. As a result, how the courts apply and award damages pursuant to the amended section 102 of the Patent Act has been the focus of much attention. To illustrate the recent trends in the calculation of patent damages by the Japanese courts, this article provides an outline of a recent decision by the IP High Court (en banc) (the *Massage Chair* case).⁽²⁾

Background

Calculation of patent damages

The scope of patent damages to be compensated is always an issue because patent rights are intangible. If a competitor sells a product that infringes a company's patent, the sales of the company's own product might drop. Even with such a decrease in sales, however, it can be difficult to be sure that the drop was due to the infringement – other factors may have contributed, such as the product falling out of fashion or the availability of alternative products. It is not easy to prove causation between patent infringement and lost profits. In this regard, section 102 of the Patent Act provides a certain remedy for patent infringement with regard to the calculation of damages, aside from the general remedy under section 709 of the Civil Code, which provides compensation for damages caused by tort.

Damages calculation based on infringer's sales and patentee's profit

Section 102(1) of the Patent Act provides that if the infringer has sold products that infringe the subject patent, in principle, the amount of damages can be calculated as the amount of profit per unit of the patentee's products multiplied by the sales volume of the infringing products. This provision is based on the idea that the infringing products would have been sold exclusively as authorized products by the patentee. Of course, if the patentee's sales capacity was not adequate to sell the same volume of products as the infringer, or if there are other circumstances to consider, such as the infringer's sales efforts, the amount of damages may be reduced to a reasonable extent.

Damages presumption based on infringer's profit

Section 102(2) of the Patent Act provides that if the infringer has earned a profit from patent infringement, the amount of that profit is "presumed" to be the amount of damages incurred by the patentee. This clause was established to reduce the patentee's burden of proving entitlement to damages due to infringing sales. Since this provision is only a "presumption", the infringer can rebut and overcome the presumed damages amount by proving that part of the profit was not gained through the infringement of the patentee's subject patent. The court cases discussed in this article mainly relate to this damage calculation framework in section 102(2) of the Patent Act.

Reasonable royalties

Sections 102(3) and 102(5) of the Patent Act provide that the patentee can claim, as damages, at least the "reasonable royalty" that the patentee would have been entitled to receive from the infringer, even in cases where damages calculated pursuant to sections 102(1) and 102(2) have not been awarded.

In connection with this, it should be noted that section 102(1) was amended in 2019. The 2019 amendments clarified that even if the sales volume (quantity) of products that the patentee could have sold is expected to be less than the sales volume of infringing products, the patentee still has a chance to collect damages equal to a "reasonable royalty" on the portion of goods sold by the infringer that corresponds to the patentee's lack of sales capacity. The newly added section 102(4) also stipulates that when a court determines a reasonable royalty, it may take into account the hypothetical settlement royalty amount between the parties by presuming the patent has been infringed.

Recent notable IP High Court decisions on lost profits damages

This section outlines a few recent notable IP High Court decisions, where the Court has attempted to calculate the amount of damages by clarifying the application of the methodology for damages calculation provided in section 102(2) of the Patent Act.

In the *Diaper Disposal Pot* case,⁽³⁾ the issue in question was whether exploitation (making, selling or using) of the patented invention by the patentee is required for section 102(2) of the Patent Act to apply. On 1 February 2013, the IP High Court answered "no", and held that the application of section 102(2) should be allowed "where there are any circumstances suggesting that the patentee could have gained profits had no patent infringement by the infringer occurred". In addition, the Court indicated that various circumstances, such as the

difference between the patentee and the infringer in terms of their manners of business, should be taken into consideration with respect to the rebuttal of the presumed amount of damages. However, the question of what such "circumstances" remains unanswered.

On 7 June 2019, in the *Carbon-Dioxide-Containing Viscous Composition* case,⁽⁴⁾ the IP High Court indicated that the amount of the infringer's profit, which has to be alleged and proved by the patentee in order for the presumption in section 102(2) of the Patent Act to apply, is the total amount of marginal profit (ie, the sales of the infringing products minus the additional costs the infringer needs to pay). The Court also provided examples of the circumstances preventing a showing of causation between the infringer's profits and the patentee's damages, pursuant to which the presumed amount of damages may be rebutted. The circumstances may include, for example:

- the difference between the patentee and the infringer in terms of, for example, their manners of business (ie, non-identity of the markets);
- the presence of competing products in the market;
- the infringer's sales efforts (eg, branding and advertisement); and
- the performance of the infringing products (characteristics other than the patented invention, such as function and design).

The Court also indicated that if the patented invention has been used in only a part of the infringing products, the presumption may be rebutted by taking account of the importance and customer attraction ability of the patented invention in the infringing products.

However, despite the aforementioned IP High Court decisions, the calculation of damages pursuant to section 102(2) of the Patent Act remains unclear and unresolved. The following questions, among others, remain:

- What are the circumstances suggesting that the patentee could have gained profits had no patent infringement by the infringer occurred?
- If the presumption pursuant to section 102(2) is partially rebutted, is the patentee still entitled to receive a reasonable royalty pursuant to section 102(3) of the Patent Act? This is still uncertain because section 102(2) was not amended in 2019, although it states that a claim for a reasonable royalty is compatible with the damages calculation pursuant to section 102(1) of the Patent Act.

Given this situation, the 2022 IP High Court decision is important in that it provides some guidance on these questions.

Facts

In this lawsuit, the plaintiff alleged that the manufacture and sale of the defendant's massage chair products infringed the plaintiff's patents (including a patent on a "chair-type massage machine")⁽⁵⁾ and sought the following:

- an injunction against the manufacture and sale of the products;
- the disposal of the products; and
- compensation of 1.5 billion yen in damages and late fees.

In the first-instance trial, the Osaka District Court dismissed all of the claims on the grounds that the defendant's products did not constitute exploitation of the patented inventions. The plaintiff appealed this decision.

Decision

On 20 October 2022, the IP High Court allowed the plaintiff's claim for damages in the amount of approximately 400 million yen, holding that the defendant's products did infringe one of the plaintiff's patents. The remainder of this article focuses on the Court's findings relating to the calculation of damages pursuant to section 102(2) of the Patent Act.

Applicability of section 102(2) of Patent Act

First, the IP High Court held that there were "circumstances suggesting that the patentee could have gained profits had no patent infringement by the infringer occurred". The plaintiff exported its massage chairs to the same destination countries, during the same period, as the defendant did with its products. In such a situation, the plaintiff's products were interchangeable with the defendant's products in the market of each destination country. Therefore, the aforementioned "circumstances" were found to exist, and the profits the defendant gained through exporting the infringing products were presumed to be the amount of the plaintiff's damages, pursuant to section 102(2) of the Patent Act.

Overcoming presumption of damages

The defendant made certain arguments, containing reasons to rebut the presumed damages amount, and the Court ruled that the following reasons could be grounds for rebuttal under the facts of the case:

- The market for the infringing products and that for the patentee's products were not identical – there were some countries to which only the defendant exported the products.
- The patented invention was used in only part of the infringing products.

By also taking account of the importance and customer attraction ability of the patented invention in the infringing products, the IP High Court held that the patented invention made only a certain percentage of contribution to the infringing products, and therefore there was no causal connection between the infringer's profits and the patentee's damages. Therefore, the amount of damages, calculated based on section 102(2) and the rebuttal, should be an amount corresponding to the aforementioned percentage of the profits.

Whether reasonable royalties can be claimed on rebutted portion of presumed damages

The Court also indicated that section 102(3) guarantees a reasonable royalty as the minimum amount of damages, regardless of whether the patentee was or could have been exploiting the patented invention. However, section 102(2) provides for an amount of damages due to a decrease in the sales of products that the patentee could have sold. The patentee can profit from making or using the patented invention itself, and, at the same time, can also profit by licensing a third party to use the patented invention. Therefore, if the presumption pursuant to section 102(2) is rebutted to some extent, the patentee still can claim a reasonable royalty on the rebutted portion.

However, there are different reasons for rebuttal: a limitation on the patentee's capacity to exploit the patented invention on its own, and other reasons. In the case of the former, the patentee usually could have licensed the patent to a third party, while the latter depends on specific circumstances.

In this lawsuit, both of the reasons for rebuttal fell within the latter case. With respect to the first grounds for rebuttal (ie, the non-identity of the markets), the plaintiff could have licensed the patent to a third party in each of the countries to which the plaintiff did not export the products. However, with respect to the second grounds (ie, the limited contribution of the patented invention), since the contribution made by the patented invention to all of the defendant's products was limited, the plaintiff could not have licensed a third party with regard to the portion of the defendant's products that was not due to the contribution of the patented invention. The IP High Court allowed the application of section 102(3) of the Patent Act only with respect to the portion of the rebuttal on the grounds of non-identical markets.

Comment

This IP High Court decision is meaningful because it provides a detailed interpretation of section 102(2) of the Patent Act and a general approach with respect to the applicability of section 102(3) as to the rebutted portion of the presumed damages under section 102(2).

In the *Telecommunications Unit* case,⁽⁶⁾ which was decided on 20 June 2022 prior to the *Massage Chair* decision, the IP High Court indicated that section 102(3) is not applicable to a rebutted portion due to the presence of competing products. The *Telecommunications Unit* case will be regarded merely as a specific example of the damages calculation framework indicated in the *Massage Chair* case.

These decisions aim to enable patentees to truly recover their damages by using this framework in combination with the presumption of their sales profits and minimum guarantee of their royalties, and will be a helpful guideline with respect to the calculation of damages for patent infringement under the Patent Act.

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Endnotes

(1) Act No. 121 of 13 April 1959. An unofficial English translation of the Patent Act provided by the Ministry of Justice is available [here](#).

(2) 20 October 2022, case No. 2020 (*ne*) 10024.

(3) Case No. 2012 (*ne*) 10015.

(4) Case No. 2018 (*ne*) 10063.

(5) Japan patent registration No. P4866978.

(6) Case No. 2021 (*ne*) 10088 and No. 2022 (*ne*) 10014.