

Compensatory Damages in Japan

While we have previously covered the topic of "Damages for Infringement in Japan", it is worth noting that this area of intellectual property protection continues to evolve. Japan was once seen as being relatively soft on the enforcement of IP rights as well as in the installation of deterrents (generally financial) to prevent or punish individuals or companies that willfully violate other individual's or other company's existing IP rights.

As numerous Japanese companies are multi-national and other countries' companies operate in Japan, it is essential that Japan's IP enforcement measures and compensation for violations be at a level which best facilitates global commerce and fosters the image of Japan as an active participant and global business partner.

The latest principles by which damage awards are determined and how they are assessed against the infringing party will be examined in this article.

I. Short-term and Long-term Effects Due to Infringement

Generally, such compensation is determined based on the fact that an infringement has occurred and the financial effect(s) of that infringement is compared to the hypothetical situation had no infringement had occurred. For example, if Company B marketed an item which had been deemed to infringe on an item which Company A had protected, the extent to which Company A's market share, profits, reputation, etc., was adversely affected by Company B's infringement must be calculated. The long-term effects may be difficult to calculate, as it may involve Company A attempting to clarify the infringement to the public which may have developed apprehension in terms of using Company A's products due to the infringement.

One can imagine Company B marketing a medicament which infringes on Company A's product, only Company B's product has a deleterious (or perhaps even deadly) effect. This would cause a lasting impact to Company A, as it would take an inordinate amount of time for the public to feel confidence that they were indeed

purchasing and using Company A's safe product and not Company B's infringing and dangerous product.

In order to adequately address the short-term and long-term costs associated with intellectual property right infringement, the manner in which investigations for proving infringement and establishing financial damage amounts required revamping.

II. Investigation Methods

Investigations and evidence gathering is necessary in order to prove infringement and calculate the damages resulting therefrom. An investigator (neutral third party) may be dispatched to investigate the company accused of infringement. These investigations include the conventional accumulation of documents (largely seen as being ineffective), but also now include onsite investigations. This should increase the amount of information available to the court regarding the alleged infringement.

At the same time, numerous firms have expressed that such investigations would potentially allow access to their trade secrets. If the neutral investigator deemed some aspects of the obtained information to fall into the realm of a trade secret, that information could be withheld from any public tribunal.

III. Calculating Damages Based on Production Capacity

Profits lost due to infringement make up part of the damages awarded as a result of infringement. This amount was traditionally based on the production limitations of the IP rights holder (plaintiff), assuming the infringer sold more products than could be reasonably produced by the plaintiff. Traditionally, if the infringing party sold 10,000 more of the item than could have been produced by the plaintiff, it was unclear as to whether the profits from the sale of the additional 10,000 items would be included in the damages awarded. The IP rights holder may seek damages on the amount of infringing items sold equivalent to the plaintiff's production capacity and royalties on all of the items sold exceeding the plaintiff's production capacity.

IV. Calculations Based on Assumed Royalties

The court may consider adding royalties (reasonable royalty) which the plaintiff would have received had a licensing agreement been in effect to the awarded damages. This calculates the royalties based on the assumption that an infringement has occurred and is generally higher than the licensing fee alone, and thus, the damages are higher than the prior system in which damages were calculated royalties without any assumption that an infringement had occurred. This is aimed at increasing the amount of damages awarded (via direct financial damages and the establishment of licensing agreements).

V. Patentee Not Directly Selling Protected Product in Japan

A foreign company which does not directly sell its protected goods and services in Japan, but has licensed a Japanese distributor(s) to sell the protected goods and services in Japan could claim infringement and seek lost profit compensation from another company which infringed on the foreign company's IP rights. The reasoning here is that the infringement would decrease the demand of the foreign company's goods and services distributed by the licensed Japanese distributor. While it is obvious that one company's IP rights also protect their Japanese distributor(s) from infringement, that such an infringement could result in lost profit compensation to the foreign company directly is a relatively new aspect to how patent damages are awarded and calculated in Japan. (See Intellectual Property High Court Case No. 2012 (Ne) 10015, February 1, 2013)

Sources:

Celniker, et al., (2019) "Litigation and Enforcement in Japan: overview", Practical Law Country Q&A 9-502-0319

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