Latest Developments in Japanese IP Cases

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1. PATENT INFRINGEMENT:

Taisei Sangyo K.K. v. Suzuki Seiki K.K.
Osaka District Courts (21st Div.)/ Dec. 24, 1992/ 90(Wa)7102

IMPLIED LICENSE IN PATENTS USED AS COLLATERAL:

This case was regarding an implied license between parties of a general agency agreement for the sale of patented machinery.

FACTS

In 1983, the plaintiff, Taisei Sangyo, filed two patent applications and one utility model application (collectively called "the patents" below) relating to an apparatus for making the Japanese food *inari-zushi*, which is vinegared rice covered with a deep-fried bean-curd pouch. The patents were granted in 1988, 1989 and 1991 respectively.

On August 10, 1984, the defendant, Suzuki Seiki, concluded a general agency agreement with Taisei Sangyo. Under this agreement, Suzuki Seiki would act as Taisei Sangyo's general agent to sell the patented machinery manufactured by Taisei Sangyo. As part of the agreement, Taisei Sangyo signed two promissory notes in favor of Suzuki Seiki in the amount of ¥3 million each.

After execution of the agreement, Taisei Sangyo signed several other promissory notes in favor of Suzuki Seiki. As a result, Taisei Sangyo owed Suzuki Seiki a total amount of ¥28 million. In January 1985, Taisei Sangyo asked Suzuki Seiki to extend the payment date for the first promissory note and it agreed to do so.

In March of that year, Suzuki Seiki started marketing its own machines, which adopted the patented features for automatically preparing the sushi pouch. In August of that year, Mitsuru Suzuki, owner of Suzuki Seiki KK, was assigned one-half of the interests in the patents as security for the promissory notes, with the assignment to become effective if there was a default on the notes. The assignment record was filed with the Patent Office.

Two years later, on July 15, 1987, Taisei Sangyo did default on a promissory note and, a week later, went into bankruptcy with a second default. In accordance with the agreement made in connection with the payment date extension, one-half interest in the patents was assigned to Suzuki Seiki effective as of the date of default.

Upon the grant of the final patent in 1991, Taisei Sangyo sued its former business partner, Suzuki Seiki, charging that (1) the assignment of the one-half interest in the patents was not effective because of fraud and misrepresentation by Suzuki Seiki, and (2) Suzuki Seiki's use of the patents prior to July 15, 1987 constituted infringement, because the patents were provisionally protected under the Patent Law. Taisei Sangyo claimed damages of ¥93 million plus interest.

HOLDING

1. Fraud and Misrepresentation

Taisei Sangyo argued that the assignment document which had been submitted to the Patent Office was not a genuine copy and that, without Taisei Sangyo giving its prior consent to the document actually submitted, the assignment was not legally binding.

The court found that the genuine corporate seal for Taisei Sangyo had been used on the assignment on its behalf, irrespective of whether the assignment was the exact copy which Taisei Sangyo approved. In addition, it noted that it was clear from the evidence that Suzuki Seiki knew of Taisei Sangyo's financial difficulties in January 1985, and would not have agreed to extend the payment date without a firm commitment or license under which Suzuki Seiki would be allowed to use the patents if Taisei Sangyo failed. Based on these reasons, the court held that no fraud or misrepresentation had been made.

2. Right to Use the Patents

The court found that when Suzuki Seiki agreed to extend the payment date of the first promissory note, the implication was that Taisei Sangyo agreed in exchange to grant Suzuki Seiki the right to use the patents until Taisei Sangyo became current on its payments on the promissory notes. At the same time, Taisei Sangyo provided a one-half interest in its patents as collateral for the loans, with the collateral to be assigned to Suzuki Seiki if Taisei Sangyo went into bankruptcy.

Because Suzuki Seiki clearly had these rights, the court held that Suzuki Seiki's use of the patents was legitimate and no infringement had occurred.

COMMENT

This case is interesting in two aspects. First, Taisei Sangyo claimed damages for infringement of the "provisional protection" given to patent applications before a patent has been granted. After the laying-open of a patent application, if the applicant gives notice of possible infringement to a person believed to be practicing the claimed invention, the applicant is allowed to claim damages from the person for the period up to the publication for opposition of his application. However, this claim can only be made after the patent application has been published for opposition (*kokoku*). If no patent is ever issued, then this provisional protection right becomes void.

The other interesting aspect is the basis for calculation of past damages. Taisei Sangyo simply claimed 20% of the total revenues of the allegedly infringing products as its damages. The court ruled in favor of Suzuki Seiki and did not award any damages. The court also expressly rejected the adoption of the profit margin of 20% as a basis for royalty calculations, since other factors (including the level of technology, marketing efforts, capital resources and vulnerability on novelty grounds) were not appropriately taken into account. In this case, since Taisei Sangyo had exhibited its machine which incorporated the invention prior to making its patent applications, that would make it vulnerable on novelty grounds and the court noted that this would be a significant factor in reducing the value of the patents.

(Jinzo Fujino, Director of Operations, Morrison & Foerster, Tokyo)