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1. Damages for Unfair Competition

Toyo Suisan Kikai K.K. v. Nippon Fillester Co., Ltd., et al.

Osaka High Court (8th Div.)/ February 23, 1993 (Case Nos. 92(ne)495 and 92(ne)598)

Unfair Competition Prevention Act §1 (i)(6)

Appeal from lower court decision upholding non-infringement of patent and awarding damages caused by false advertisement of patent infringement.

FACTS

The appellant, Toyo Suisan Kikai K.K., manufactures machines for removing egg sacs (*tarako*) from cod. The appellee, Nippon Fillester Co., manufactures machines for cutting off fish heads. The co-appellee, Yutaka Ogawa, is the president of Nippon Fillester and the owner of Japanese Patent No. 1508094 relating to a machine for cutting off fish heads without damaging their egg sacs. Nippon Fillester was a non-exclusive licensee under the patent.

In May and June of 1989, Toyo received purchase orders from four customers for 26 units of its machines. However, Nippon Fillester twice placed advertisements in its name in two industry newspapers in which a patent infringement was announced and Toyo was named as an alleged infringer. Shortly thereafter, the 26 purchase orders from Toyo's four customers were cancelled.

Toyo sought opinions from an outside attorney (*bengoshi*) and from a patent attorney (*benrishi*). Both concluded that the Toyo machines did not infringe the Ogawa patent. Toyo then sent an explanatory letter to Nippon Fillester, and placed a notice in the same newspapers denying the alleged patent infringement. In July 1989, Toyo filed a claim seeking a provisional injunction against false advertisement under the Unfair Competition Prevention Act. The provisional injunction claim was accepted by the Osaka District Court. Toyo then filed in the same court a separate claim for a declaratory judgment of noninfringement and a claim for damages of about ¥28 million (\$254,500).

The Osaka District Court found that Toyo's machines did not fall within

the scope of the patent claims since they lacked some of the claimed elements. The court also found that Nippon Fillester's advertisement constituted an "illegal action" under the Unfair Competition Prevention Act in view of the fact that Nippon Fillester did not eventually take any legal action and Nippon Fillester was not the owner of the patent when it placed the advertisement at issue.

The court awarded damages in the amount of ¥10 million (approximately \$91,000), plus interest.

Both parties appealed this decision.

HOLDING

The Osaka High Court held that:

1. The interpretation of the patent by the lower court is correct. Toyo's products lack some of the elements claimed in the patent. The finding of non-infringement is affirmed.

2. The action taken by Nippon Fillester in placing the infringement notice in the industry newspapers can be considered an "illegal action" under §1 (i)6 of the Unfair Competition Prevention Act. The finding on this issue is also affirmed.

3. The basis for the damages calculation was partly inappropriate. The lower court awarded the ¥10 million in damages, stating that it had taken all relevant factors into account, but it did not specify what weight it gave to the various individual factors.

4. In view of the testimony that Toyo and Nippon Fillester, both parties to this case, were the only significant participants in this particular market, and that no other company could affect their market shares, the cancellation of the orders to Toyo can reasonably be regarded as causing the loss to Toyo of a business opportunity.

5. If the orders had not been cancelled, Toyo's sales would have been about ¥190 million (\$1.7 million) greater. Toyo's profit margin with respect to all of its products is 5.8% on average. Thus, Toyo is at least entitled to lost profits of about ¥11 million (\$100,000). In addition, damage to Toyo's business reputation is recognizable, for which an additional ¥3 million (\$27,300) is awarded separately.

6. The appellee is thus ordered to pay damages of ¥14 million (\$128,000), plus statutory interest. (The statutory rate for interest is five percent (5%) per year (Civil Law §404).)

COMMENT

This case is interesting because the court quite clearly adopted the concept of "lost profits." There was a fair amount of argument in this case regarding causation, and whether Nippon Fillester's actions actually caused Toyo

to lose profits. Because the parties were the only significant participants in the market, however, that eliminated the complexity of factors that relate to third parties that often cause difficulties in deciding the causation issue in lost profits cases. The court seemed somewhat more comfortable with the concept of lost profits as a major basis for damages under the clear-cut factual situation in this case. That does not necessarily mean, though, that courts will award lost profits more frequently in more typical cases.

Unlike the U.S. courts, Japanese appellate courts may hear evidence and decide factual issues. In this case, the court made an elaborate technical comparison between the allegedly infringing products and the claimed invention, and reached the same conclusion as that of the lower court regarding the patent infringement issue.

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