

2. Public Policy v. Contractual Obligations

H.B. Planning Co., Ltd. v. Hokushin Kogyo K.K.
Supreme Court/ Oct. 19, 1993 (Case No. 92(0)364)
Civil Law §709 (Tort Liability)

Appeal from appellate court decision which found tort liability under a consignment agreement for patented products.

FACTS

The appellee, Hokushin Kogyo K.K., conceived an idea for arranging ingots on pile drivers and sought patent protection for its idea. The patent application was filed in Japan on October 14, 1972. As filed, the specification had no limitation as to desirable positions of the ingots, which act as a weight to stabilize the body of the pile driver during its operation.

For the period from January through April, 1972, Hokushin Kogyo asked the appellant, H.B. Planning Co., to manufacture pile drivers for Hokushin which incorporated Hokushin's idea. H.B. Planning orally agreed to do so. H.B. Planning also agreed not to sell the pile drivers which it manufactured to other parties, in light of the patent application which was under preparation. There was no written contract covering these points.

On November 21, 1977, Hokushin Kogyo amended the scope of its claim standing on the specification as filed, in order to overcome a rejection by the examiner. The claim was narrowed to limit the position where ingots are placed. With this amendment, a patent was granted on the application on May 20, 1980.

In June 1980, H.B. Planning began to sell its pile drivers to others. Hokushin brought suit for an injunction and damages, alleging that sales to others breached the oral agreement between the parties.

The district court ruled that the H.B. Planning pile drivers no longer fell within the scope of the narrowed patent claim, and that non-infringing products were not subject to the agreement. Hokushin appealed to the Tokyo High Court. The appellate court, reversing the lower court decision, found that there had been a breach of contract and awarded damages of ¥5.6 million (\$54,000) under the Civil Law §709 (tort liability), regarding the damages as the profit from the revenue Hokushin received from third parties. In this case, there were no arguments among the parties about the profit margin of 20%. This holding was based on the finding that there had been no change in the product that was the subject of the oral contract, and in making this finding the court did not elaborate on the issue of whether the product infringed the issued patent with its narrowed claim.

H.B. Planning appealed the ruling of the appellate court to the Supreme Court.

HOLDING

The Supreme Court reversed the judgment of the appellate court for the following reasons. A reasonable interpretation under the facts is that the agreement

at issues was made with the understanding that H.B. Planning would have exclusive rights under the patent. If the agreement were construed otherwise, H.B. Planning would be in an unfairly disadvantageous position in view of public policy. To be more specific, H.B. Planning would be prohibited from using technological advantages which a third party could freely use. After the amendment, those advantages were no longer proprietary and became part of the public domain because of their disclosure.

In this case, there were no special circumstances which would allow for any other interpretation of the agreement. Hence, the contractual obligation of H.B. Planning not to sell the product to others should be flexibly construed to reflect the changes in the scope of the patent at issue. The appellate court erred in its interpretation of the law and its decision was vacated.

COMMENTS

In addition to its importance as a landmark decision on the legal issues, this case also has interesting practical aspects. First, the Supreme Court showed unusual eagerness and elaboration to hear the facts concerning the infringement issue. The Court eventually declined to take the tort-oriented approach taken by the appellate court and the "unfairness" argument prevailed in light of public policy.

Another interesting point is the fact that the alleged breach of contract took place eight years after the oral agreement was made. The injunction was upheld by the appellate court almost twenty years after the agreement. Validity of the patent at issue was argued separately in the Patent Office and in court and invalidity was finally found in 1990, one year earlier than the injunction decision by the appellate court. Technically, the invalidation should not affect Hokushin Kogyo's case for past damages. In fact, it seems that the weakness of the patent did not affect the appellate court decision that followed a tort analysis.

In Japan, there are two statutory bases for damage claims in patent infringement cases: Section 709 of the Civil Law and Section 102 of the Patent Law. In the appellate court decision, the Tokyo High Court relied on the former for its damages award. However, the Supreme Court remanded the damages issue to the appellate court for recalculation based on the Patent Law, in order to limit the basis for damages calculation to products which fall within the narrowed claim of the patent.

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