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## **AIPPI Case Reporter**

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### **Latest Developments in Japanese IP Cases**

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#### **1. Patent: Damages Under Tort Law**

**Yugen Kaisha ZOKEI KIKAKU v. Kabushiki Kaisha NISSO**

Osaka District Court, Decided June 29, 1995

Case No. 95(wa)3653

Civil Code, §709

#### **FACTS**

Plaintiff, ZOKEI KIKAKU (ZOKEI), is a company providing customers with planning, design and engineering services for their shops and interior displays. Since 1972, ZOKEI has manufactured and sold columns made from fiber reinforced plastic (FRP). These columns were of various shapes and engraved in ancient Greek fashion, and were produced in quantity for decorative purposes.

The defendant, NISSO, a publisher of journals and newspapers for the apparel industry, was also engaged in marketing engineering materials. ZOKEI approached NISSO to propose a joint business relationship regarding ZOKEI's FRP columns. NISSO finally accepted the proposal and entered into a memorandum of understanding in 1984.

The MOU stated that NISSO should be named as the manufacturer and seller of the columns it sold, although in actuality, ZOKEI was responsible for production and NISSO for sale. The columns were marketed under the name of "NISSO Art Decoration." The name of ZOKEI appeared nowhere in the sales literature.

Later, ZOKEI requested NISSO to agree to a price increase for columns ZOKEI sold to NISSO. NISSO did not agree to this offer, but, instead, requested in writing that the delivery schedule be observed and that the quality of products be improved.

On February 19, 1991, ZOKEI notified NISSO that it would terminate the MOU for two reasons: (1) NISSO's purchase price was too low, and (2) sales of specially ordered products did not increase as expected. In principle, the parties agreed to terminate the MOU, but they discussed the continuation of

a separate, independent operation.

A week later, ZOKEI sent to NISSO a notice that an independent operation would be possible only if the following requests were met: (1) NISSO would place orders in the amount of a minimum of ¥2 million per month; (2) NISSO would not use any samples of NISSO Art Decoration in NISSO's catalogue after April 1992; and (3) ZOKEI would furnish its products to NISSO only until March 31, 1992. In response, NISSO requested that ZOKEI promise in writing that it would improve product design and deal appropriately with complaints from users. ZOKEI did not answer this. NISSO shortly thereafter stopped placing orders for FRP columns to ZOKEI, but continued to sell FRP columns of a similar design that NISSO manufactured.

ZOKEI sued NISSO and claimed injunction and damages on the ground that continued sales of FRP columns by NISSO constituted an illegal act under Section 709 of the Civil Code.

#### HOLDING

##### 1. Injunction

Under Section 709 of the Civil Code, only damages are available as relief, not an injunction. Thus, the injunction claim was rejected.

##### 2. Damages

With respect to the issue of damages, the court stated:

In order for the shape, pattern and design of plaintiff's products to be protectable under Section 709 of the Civil Code, they must have an aesthetic appearance when they are in use as decorative materials. In addition, they must have an aesthetic creativity to the extent where the creativity causes a sense of aesthetic appreciation among consumers. However, the shape, pattern and design of the plaintiff's product does not have such aesthetic characteristics — it lacks aesthetic creativity.

3. Plaintiff alleges that NISSO's products are exactly the same as ZOKEI's products in every aspect of their designs. In this respect, the court did not accept the allegation:

However, evidence shows that the defendant attempted to have an outside design house and make the design of its columns similar to that of plaintiff's product at the time the MOU was in effect. In addition, the evidence submitted by ZOKEI compares only a part of the shape, patterns and designs of the two designs to single out their similarity. It is insufficient to support a conclusion that NISSO's products are an exact copy of ZOKEI's.

4. The court did not agree that there was an explicit license granted to NISSO to manufacture the product. However, the court considered the presence of the agreement by ZOKEI that NISSO be indicated as the manufacturer and seller of FRP products. In view of the fact that NISSO spent a huge amount

of money for product catalogues and advertisements to do business with ZOKEI, NISSO's position should be considered even after the termination of the MOU so far as NISSO's products are concerned, the court said.

5. There is no evidence showing that NISSO sold its products at a discount price, which would have forced ZOKEI to lower its price. There were alternatives on the market. Taking these facts into account, the court concluded that NISSO's conduct in manufacturing, selling or distributing its product did not constitute an illegal act against ZOKEI.

## COMMENTS

In this case, there is no teaching on the proper application of Section 709 of the Civil Code, which requires the establishment of causation, intent/negligence and illegality. The judgment only discusses the issue of illegal conduct, but not the other elements of the three-part test. For this reason, this case may not serve as a valuable precedent for tort law.

However, the case does highlight open issues concerning the legal protection of products with ornamental features which are manufactured in quantity for industrial use. In principle, industrial design protection is available for these kinds of products under the Design Law. In this case, however, no design registration was involved, and the plaintiff relied on tort law for its claims of injunctive and monetary relief. Then, the question is why the plaintiff did not seek relief under other statutory laws, such as the Unfair Competition Prevention Law and the Copyright Law, under which injunctive relief is available explicitly.

There were no direct arguments by the plaintiff which address this question. We can only speculate why. The plaintiff might have intentionally wanted to avoid copyright arguments because of the teaching of the well-known "Fine-Grained Wallpaper Case" (Tokyo High Court decision of December 17, 1991). In that case, the court concluded that patterns of the fine-grained wallpaper cannot be regarded as aesthetic and thus the copyright law does not apply. However, the court admitted that there was unfair conduct by defendants, which could be relieved under Section 709 of the Civil Code.

Here is another question. Why not the Unfair Competition Prevention Law? This law was recently amended and is limited in application to exact copies of a product, irrespective of whether the product has creative value. It may be safe to assume that ZOKEI was not confident that it could establish that NISSO's product was an exact copy.

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