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Latest Developments in Japanese IP Cases

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1. COPYRIGHT: Infringement/Computer Program

Kabushiki Kaisha C.P.U. v. Sankei Service Co., Ltd.
Osaka High Court, Civil 8th Div.
Case No. 1994 (ne) 303
Decided: September 2, 1996
Copyright Law, Section 21 and Section 112, Para. 1; Civil Code, Section 709

Plaintiff sought an injunction against the Defendant's manufacture and sale of a software program under the Copyright Law. Plaintiff also claimed damages caused by copyright infringement under the Civil Code (torts law). The court found that the Defendant's software program amounted to a duplication of the Plaintiff's program. The court awarded damages.

FACTS

Kabushiki Kaisha C.P.U. (Plaintiff), formed in September 1984, started marketing its application software in July 1986 for use in personal computers. This software program was intended to be used for computer aided design (CAD) on NEC's PC-98 series computers.

For the development of this software program, the Plaintiff invested 50 million yen and spent 22 months for completion. This program, with a wide variety of features, was easy to use and was sold at the standard price of ¥350,000. It was a work on hire which was protected under the Copyright Law.

Sankei Service Co., Ltd. (Defendant) was established in April 1985 to engage in marketing computer equipment and related software. In December 1987, the Defendant sold its computer software called "Sankei CAD System." This software program was priced at ¥50,000.

The CAD system had a number of principle features which were the same as or similar to those of the Plaintiff's software. For example, the Plaintiff's software contained exactly the same features, including basic configurations, hidden commands, menu displays, type fonts, file structures, and even bugs.

The Plaintiff sued the Defendant before the Osaka District Court, seeking an injunction under the Copyright Law and damages under the Civil Code. The District Court found infringement of the Plaintiff's copyright and awarded damages in the total amount of ¥11,408,000 (Lost profit to wholesale: ¥3,528,000; Lost profit to retail: ¥5,880,000; and Damage to business reputation: ¥2,000,000).

The Defendant appealed to the Osaka High Court with regard to the amount of damages determined by the District Court.

HOLDING

(Infringement)

As evidence, two computer science experts submitted an opinion with respect to the issue of whether the Defendant's software program amounted to the Plaintiff's software program. Using NEC's PC-9800 series computers, the experts jointly compared the two software programs. As a result, the opinion pointed out that

1) User interface was extremely similar including display formats, menu structures and operation processes;
2) Hidden commands and functions were similar or identical to each other; and
3) Three bugs were exactly the same.

The experts also conducted reverse compilation and concluded that the program codes were substantially the same, and that there were data files whose creation dates were exactly the same. Based on these analytical results, the experts concluded that the Defendant's CAD system was not independently created. They further concluded that the copies of the Defendant's software program were only provided with some minor changes.

The Defendant argued that he believed the advertisement of another company, Urban Soft to the effect that Urban had developed an original software program. Accordingly, after paying Urban the amount of ¥1,500,000, he obtained a license to market copies of the software program allegedly purchased from Urban. The Defendant also argued that he did not know the similarities of the purchased program to the Plaintiff's. The court did not accept these arguments for the following reasons. First, the Defendant's programs were sold shortly after the Plaintiff's program had been launched. So it was likely that the Defendant was aware of the Plaintiff's program and its contents or functions. Such likelihood was not be swept away because software business of this kind generally requires companies to search for existing competitive software programs and market demands before they actually start developing their own software.

Secondly, even if the Defendants purchased a license from Urban, the alleged amount of ¥1,500,000 would not be believable. In view of the similari-

ties between the two programs, the amount of ¥1,500,000 was too cheap when compared with the Plaintiff's investment which totaled ¥15,000,000. Further, no reliable evidence was produced to prove a payment was made for the license.

In view of the rare chance that two software programs would be accidentally similar, the court concluded that the copies made by the Defendant amounted to a duplication of the Plaintiff's program.

(Damages)

1) Lost Profits

The Plaintiff sold 71 copies of the software product in 1986 and 143 in 1987. However, with the Defendant's entry into the market in 1987, its sales volume decreased to 65 in 1988, 59 in 1989, 61 in 1990 and 54 in 1991. Evidence showed that the Defendant actively advertised its software program on various publications.

Based on these facts, his reduction in sales was partly caused by the launch of the Defendant's software. However, in view of the short life expectancy of software products in general and the existence of other competitive products, it is inappropriate to make the Defendant liable for the entire sales reduction. The court stated:

> "As discussed, while the sale of the Defendant's program caused such sales decrease of the Plaintiff's program, it cannot be said that the total sales decrease was due to the sale of the Defendant's program. When there are uncertainties about factors for the calculation of damages, a reasonable approach is to rely on a calculation based on factors which are certain and accurate as much as possible. In this case, therefore, out of the average sales decrease, the percentage of the decrease actually caused by the copyright infringement was about 30%, namely, 25 copies per year.
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> "Evidence shows that the Plaintiff sold 50% of its software products through its sales agents while the rest was directly sold to general consumers. In the former case, the programs were sold to the sales agent at the price of 60% of the standard list price. In the case of the latter, the sales price was the list price. However, in both cases, many actual transactions were further discounted by 20% on average."

Then, the court calculated the damages as follows.

① Damage to wholesale:
Actual Sales Price: ¥350,000×0.6×(1−0.2)=¥168,000
Total:
¥168,000×0.3 (profit margin)×25 (copies)×4 (years)×0.5=¥2,520,000

② Damage to retail
Actual sales price: ¥350,000×(1−0.2)=¥280,000
Total damage: ¥280,000×0.3×25×4×0.5=¥4,200,000

Total Amount of Damages (①+②): ¥2,520,000+¥4,200,000=¥6,720,000

2) Damage to Business Reputation

The Defendant's software program was an illegal copy of the Plaintiff's program. With identical appearance and contents, it was sold at ¥50,000. Being sold at an unusually cheap price misled distributors and general consumers to believe that the market value of the Plaintiff's program which was priced at ¥350,000 was in fact ¥50,000. Good faith and reputation was injured by the sale of the Defendant's software. Such injury to business reputation can be valued at no less than ¥2,000,000.

COMMENTS

Copyright cases regarding software infringement are rare in Japan. Among them, cases articulating a basis for damages calculation are even rarer. This case is one of those rare cases.

In this case, the court was careful in determining the amount of damages even though the Defendant's copying was intentional. The court made it clear that if relevant factors are uncertain, the size of damages should be determined in a careful and conservative manner. A finding of damage to business reputation was an additional relief for the Plaintiff. However, there is no scientific basis for determining the amount of ¥2,000,000 as an additional relief in this decision.

There have been criticisms in and outside Japan about the insufficient protection of intellectual property rights in Japan. Such criticisms are directed to the amount of damages which is far less than those in the United States. Taking those criticisms and global harmonization into account, MITI, a governmental agency, introduced a bill for Patent Law amendments this year. Along this line, a group of experts already submitted an advisory report in November 1997 suggesting a law change to provide a statutory basis for the court to increase damages awards up to three times the amount of reasonable royalty. The report also proposed to give the court power to shift the burden of proof to alleged infringers.

(Jinzo Fujino, NGB Corporation, Tokyo)