

WINDS FROM JAPAN

The Licensing Executives Society Japan

Message from the New President

By Hiroki Saito *



It is a great honor to become the 25th president of LES Japan, one of the largest local societies of LESI.

The world is now coping with the unprecedented challenge of COVID-19 . Unfortunately, the LES International Annual Conference 2020 has been canceled. LES Japan's annual meeting, which was scheduled to be held in July this year, has also been canceled. We must all endure this together in these challenging times.

The core value of LES is worldwide networking and friendship between highly esteemed professionals. Under current situation, face to face interaction is strictly limited. We can still continue communicating and collaborating, however, through advanced information technology and electric publications.

LES Japan has a history of nearly half century. During the period, although the central areas and depths of innovations has dramatically changed, the protection by patents and other intellectually property has been continuously playing a critical role. The strategies surrounding intellectual property and its licensing, has changed. In the early days, intellectual property was treated as a defensive measure, and now, intellectual property has been redefined as active source of revenue, while also being utilized cooperatively, such as through open innovation and standardization. Very recently, due to the rise of IoT and AI technology, utilization of big data has become a key issue throughout every industry, and IP practice regarding big data is now under development.

License executives are already facing these challenges. Maintain and develop international communication and cooperation, and overcome every challenge.

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\* *President of LES Japan/ Partner, Mori Hamada & Matsumoto*

# [Trademark]

## “Use” based on sales through an online shop operated by a third party abroad was affirmed

- The IP High Court Decision on Jan. 28, 2020, Case No. 2019 (Gyo-ke) 10078 -

By **Hideko MIHARA** \*

### BACKGROUND

The Plaintiff HYTECK societe par actionos simplifiee (HYTECK) holds the International Trademark right No. 1217328.



Under Japan's Trademark Act 50(1), if a registered trademark has not been used in Japan in connection with any of the designated goods/services for 3 consecutive years or more following registration by the holder of trademark right, the exclusive right to use or non-exclusive right, any person may file a request for a trial for rescission of such trademark registration in connection with the relevant designated goods/services.

On Oct. 5, 2018, the defendant Melitta Europa GmbH & Co. KG (Melitta) filed a request for a rescission trial of the trademark registration for the designated goods class 21 (Utensils and containers for household or kitchen use, etc.) because of non-use.

HYTECK did not answer nor prove its use, then the registration was cancelled in part by the decision of JPO.

HYTECK appealed and the IP High Court affirmed the use and revoked the decision.

### ARGUMENTS

HYTECK argued that it transferred products, of which use should be verified among the designated goods class 21 during the 3 year period before the registered date of the request for a rescission trial, to an online shop “l’Ange bio”

operated by a Japanese national who lives in France. “l’Ange bio” is in Japanese.

According to HYTECK “l’Ange bio” displayed the products on its own web-site in order to sell to Japanese customers and did so by replying to customers’ order. The traded products were labelled with the trademark and were transferred to customers displaying the labels.

HYTECK also argued that there was a use of a registered trademark through an aroma shop “MARQUISE” who purchased HYTECK’s products.

“MARQUISE” is operated by MARQUISE Ltd. located in Ehime prefecture Japan and it sells products at its two shops and an online shop. (details are omitted)

Melitta argued;

In order to argue the use of trademark by the holder of trademark, it is not enough that the holder merely recognizes the fact of products bearing the trademark in Japan were sold by a third party who purchased them from the holder. Further it is necessary that at least the holder recognizes a third party sells such products in Japan on behalf of the holder based on a contract, such as a distributor agreement, between the holder and a third party.

### SUMMARY OF THE JUDGMENT

If the holder of trademark right assigned products which were affixed by the trademark to an assignee recognizing the assignee would sell products in Japan, and actually if such products with the trademark attached were sold in Japan, such use of the trademark (the assignment of products on which the trademark were affixed) could be said as the “use” based on the intention of trademark right holder. There should be no grounds to demand “recognition” based on “contracts”.

Although the defendant argues the evidence for verifying facts (items (1) ~ (7) concerning the sales through “l’Ange bio” ) are not enough, the

plaintiff provided enough evidence taking into account the supplementary evidence following defendant's such allegations.

## COMMENTS

This case may be a unusual, because the online shop is operated in Japanese by a Japanese national living in France for selling goods to Japanese customers.

- The following may be some of the supplemental evidence , if those having higher number could relate to such proofs;
- a Japanese national A operates "l'Ange bio"
- when HYTECK sells its products with the trademark to "l'Ange bio", HYTECK recognizes that A is operating "l'Ange bio" and "l'Ange bio" sells in Japan for Japanese customers
- on the web page of "l'Ange bio", HYTECK's

bottles and glass containers are displayed as products with prices in Japanese Yen

Melitta holds an International trademark registration No. 1290278 (Mark: "Aromazones"). Among designated countries, only an application designated in Japan was rejected under Section 4(1)(xi) of Trademark Law (identical with or similar to International Trademark registration No. 1217328).

The contents of this article provide general information and do not include legal advice.

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* Editor / Patent Attorney, MIHARA Patent Office

Increasing Damages Awarded by the Japanese Courts

By Shoichi Okuyama, Ph.D.*

Introduction

Recently, a trend has emerged among the outcomes of patent infringement lawsuits - increasing damage awards. In this short paper, we would like to trace a series of events and court decisions to see how this trend has taken its shape.

The Japanese courts have long been criticized for being overly conservative in determining damage awards. In 1998, for example, the Patent Act was amended to add a new Article 102, paragraph (1)¹ as a third way of calculating damages (the then-existed Article 102(1) and (2) were shifted to Article 102(2) and (3),

respectively). This was believed to be a drastic change. At that time, Article 102(3) for reasonable-royalty damages was also amended to allow for more flexible calculation. Article 102(2), which was not amended, stipulates the presumption of infringer's profits as damages. These changes were meant to increase damages the courts would award. When we look at subsequent court decisions, however, no significant increases have been found in damages the courts actually awarded, excluding several exceptional cases², particularly in view of low winning rates, 20 to 23% each year, of patentees.

¹ In essence, before the amendment of 2019 which we will discuss later, Article 102(1) stipulated that damages may be calculated multiplying the amount of marginal profit per unit of products the patentee sold (patentee's marginal profit) by the number of units the infringer sold with the number of units being limited by the maximum number the patentee was capable of working the invention (i.e., capable of selling for reasons such as its manufacturing capability), provided that, if any circumstances exist under which the patentee could not sell the number the infringer sold in whole or in part, the amount calculated for the number of units the patentee could not sell should be deducted. (This is not a word-for-word translation of Article 102(1) before the law amendment. Portions in parentheses have been added by this author.)

² See, for example, a Japanese-language report commissioned by the Japan Patent Office entitled "Toward Proper Evaluation of Damages in Patent Infringement" published in March 2018, in particular Annex 1 for statistical data - https://www.jpo.go.jp/resources/report/sonota/document/zaisanken-seidomondai/2017_11_zentai.pdf

Paper by Judge Yamada in April 2017

A paper entitled “Determination of Damages under Article 102(3), Patent Act” was published in the April 2017 issue (No. 75) of a journal called “Law and Technology.” Then-Presiding Judge Tomoji Yamada of the Osaka High Court argued that having surveyed court decisions and academic discussions and having talked with a German judge and a German attorney, the reasonable-royalty damages should be doubled from a reasonable royalty that can be determined as a result of hypothetical negotiations between a willing licensor (patentee) and a willing licensee (infringer). The reason is that when dealing with patent infringement, the patentee faces a high risk of losing before the court for many different reasons, and the reasonable royalty alone would not be sufficient to fairly compensate the patentee. According to the willing-licensor and willing-licensee scenario, the two parties would agree on a royalty rate which is beneficial for both, probably without clear assurance that the patent is in fact valid. In a court setting, however, the disputed patent has been found valid and enforceable and therefore the court should double such royalty rate.

Judge Yamada concluded by stating that: “The finding of the amount equivalent to the license royalty should start from the analogous cases or industry standards, and make an effort to find a license royalty rate under a virtual license agreement by clarifying weights for various factors depending on detailed circumstances in the case, and from there, the license royalty should be doubled in principle to arrive at a damage award in consideration of the infringement of a valid patent.” This author was surprised to see the active high court judge clearly stating, and giving a strong recommendation to, the “doubling” of royalty rates for damages calculation. Ordinarily, judges prefer more nuanced expressions.

Amendments to the Patent Act

A bill to amend the Patent Act passed the Diet and became a law in May 2019. It took effect on April 1, 2020. Among other changes, two paragraphs in Article 102 were amended.

Article 102(1) was amended to make it possible to recover reasonable royalty for the number of units that are excluded from damages

calculation under the unamended Article 102(1) due to the limitation on the patentee’s capacity of working the invention (i.e., manufacturing capability) or under the proviso clause which allows the deduction of the amount corresponding to the number of units the patentee could not sell for a circumstance that existed (under the newly added item (ii) of Article 102(1)). This amendment adds an additional way of calculating damages and should increase damages the courts can award.

Also, a new Article 102(4) was added, which stipulates that “(4) In awarding an amount equivalent to the amount of money to be received for working the patented invention as provided in paragraph (1)(ii) and the preceding paragraph (i.e., Article 102(3)), the court may consider the remuneration to be obtained by the patentee if the patentee reaches an agreement with the infringer with regard to the remuneration to be received for working his own patented invention on the premise that the patent right had been infringed³”. In essence, the new paragraph codifies that the reasonable royalty rate the court finds may be higher than the rate which might be agreed upon as a result of a hypothetical negotiation prior to litigation.

During the process of arriving at these amendments in a government committee, more drastic changes were discussed. The actual amendments may be considered moderate. This author, however, believes that these amendments are a significant step forward in the on-going efforts toward the patent litigation reform.

Carbonate Pack Cosmetics Case

NeoChemir Inc. and six others v. Medion Research Laboratories Inc.

Grand Panel⁴ of the IP High Court on June 7, 2019 (Case No. 2018 (Ne) 10063)

This case involves two patents, Patent Nos. 4659980 and 4912492, relating to an invention called “CO₂-containing viscous composition” owned by Medion (plaintiff-appellee). The products involved were carbonate pack cosmetics used for facial care. Medion brought a lawsuit against eleven defendants, but four dropped out in appeal. The Tokyo District Court found infringement and awarded injunction orders and

³ This is a simplified translation without mention of exclusive license or licensee.

⁴ Grand Panel is an enlarged panel of five judges including the heads of the four divisions of the IP High Court. Normally, IP infringement cases are considered by a panel of three judges in Japan. The IP High Court has discretionary authority to review cases before the Grand Panel.

damages of about JPY 330 million (about US\$ 3.2 million). The Grand Panel of the IP High Court affirmed the lower court decision and discussed how damages should be calculated under Article 102, paragraphs (2) and (3), Patent Act.

Two damages issues were involved. On Article 102(2), which stipulates that the defendant's profits are presumed to be damages suffered by plaintiff. This is a presumption clause, and a rebuttal over the presumption was disputed. Another issue involved was Article 102(3), which stipulates reasonable royalty as a minimum award of damages.

On Article 102(2), the Grand Panel stated that the defendant's profit figure to be used should be marginal profit which, simply put, equals the highest incremental profit that can be realized for the last product made and sold by the infringer (infringer's marginal profit). This reflects a trend we find in recent court decisions and should increase damage awards. Also, the Grand Panel showed, in analyzing the infringers' arguments, that the presumption can be rebutted only by showing clear evidence supporting the fact that a particular factor has actually contributed to the infringers' sale, and rejected the infringers' various arguments for the rebuttal. The Grand Panel has set a clear standard in this respect.

The plaintiff-appellee asked for damages based on Article 102(3) as an auxiliary demand. On Article 102(3), the Grand Panel agreed with the district court and found that in similar disputed cases a 10% figure was used for settlement, and that statistical data in the same field showed 5.3-6.1%. The Grand Panel agreed to use 10%.

The Grand Panel noted on Article 102(2) as follows:

The amount of profits the infringer received as a result of infringing acts as provided for in Article 102(2) of the Patent Act is, in principle, the entire amount of profits the infringer obtained, and the presumption under this paragraph covers such entire amount of the profits.

This amount of profit is that of marginal profit calculated by deducting additionally-required expenses directly related to the manufacture and sale of infringing products by the infringer from the infringer's sales of the infringing products, and the burden of proof for this rests on the patentee.

As for the rebuttal of the presumption under Article 102(2), the infringer bears the

burden of proof similar to the proviso to Article 102(1). The rebuttal may possibly include circumstances that would negate a reasonable causal relationship between the profits the infringer obtained and the damages the patentee suffered include, for example, (1) the existence of differences between the patentee and the infringer in terms of manners of business, etc. (their markets being different), (2) the existence of competing products in the market, (3) the sales efforts of the infringer (brand power, advertising), and (4) the performance of the infringing products (features other than the patented invention such as function and design).

The Grand Panel set a new interpretation and standard for damage determination under Article 102(2). Because this is a Grand Panel decision, it should have stronger precedential authority than regular IP High Court decisions.

Computer Game Case

Capcom Co., Ltd. v. Koei Tecmo Games Co., Ltd. Case Nos. 2018(ne)10006 and 2018(ne)10022, IP High Court, September 11, 2019 (original case No. 2014(wa)6163, Osaka District Court)

The plaintiff-appellant (Capcom) and the defendant-appellee (Koei) are two large computer game makers. The plaintiff asserted two patents, Nos. 3350773 (Patent 1) and 3295771 (Patent 2). Patent 1 is directed a method that adds characters, scenes, and sounds to a game through the use of previous game discs and expansion packs. Patent 2 is directed to a method and an apparatus that use vibrations from a controller or other device to communicate to the player about situations that cannot be judged by images. In December 2017, the original court found that the defendant infringed only Patent 2 indirectly and awarded JPY 5.2 millions (US\$48,000) in damages. The both parties appealed before the IP High Court.

The IP High Court found that Patents 1 and 2 were both indirectly infringed and awarded JPY 117 million in connection with Patent 1 and JPY 14.1 million Patent 2 plus attorney fees of JPY 13.1 million or a total of JPY 144 million (US\$ 1.36 million).

For damages calculation, the IP High Court relied on a report commissioned by the government and published in March 2010 by a thinktank based on survey results on licensing royalties. Also, the court looked at a Handbook on Royalty Rates published by the Ministry of

Economy, Trade and Industry (METI) in August 2010. For Patent 1, the court determined 3% of the defendant's sales figure plus consumption tax as a reasonable royalty. Also, for Patent 2, it determined 1.5% as a reasonable royalty rate because the claimed function appears only in limited situations while the original court used 0.5% as a reasonable royalty rate.

Also, the plaintiff argued for the entire market value approach, but the IP High Court rejected it.

This is another case in which the IP High Court has shown a pro-patentee attitude. Often, the IP High Court does not review appeals *de novo*. In this case, the high court reviewed the case from scratch.

Magnetic Tape Cartridge Case

Fujifilm Corp. v. Sony Corp. and a subsidiary of Sony

Case No. 2016(wa)428333 (decision 1) on March 7, 2019 and Case No. 2016(wa)20762 (decision 2) on March 28, 2019, Tokyo District Court



The Tokyo District Court rendered two separate decisions on March 7 and 28, 2019. The parties, however, wanted to keep numerous parts of the decisions secret, and the decisions were published only in February 2020 on the court website after apparently extended proceedings to determine which portions should be blacked out.

The technology involved is magnetic tapes for the LTO-7 standard. LTO stands for Linear Tape-Open. It is a technical standard created by IBM, Hewlett-Packard, and Quantum for storing large amounts of digital data. Only two companies, a subsidiary of Sony Corp. and Fujifilm Corp., produced LTO-7 tape cartridges. The newest effective standard is LTO-8. Three patents involved were Nos. 4459248 and 3818581 ("Patents 1 and 2", respectively, with US counterparts: US8236434 and US6767612) in the first decision and No. 4157412 ("Patent 3", US7355805) in the second decision. The LTO-7 standard does not involve what we commonly know as a FRAND commitment. Reportedly,

Fujifilm refused to join the standard unless special terms and conditions for licensing were used.⁵

In the first decision, the court found claim 1 of Patent 1, which is directed to a tape, valid, and Patent 2 invalid. Then, Article 102(2), Patent Act, which stipulates the presumption of defendant's profits as damages the plaintiff suffered, was applied because the plaintiff did not manufacture tapes covered by Patent 1. The court used the marginal profit figures for the infringing products and refused to subtract personnel costs from them. Previously, the court tended to discount the Article 102(2) presumption by coming up with a so-called contribution factor of a patent based on some evidence concerning technical or market contributions of the patent to infringing products. In this first decision, the court simply refused to do that. Thus, the award of damages almost equaled the amount the plaintiff demanded and was found to be JPY 5.06 billion (US\$ 47 million). The court also gave the plaintiff injunctive relief.

Patent 3 was directed to a process for making magnetic tapes. In the second decision, the court found this patent valid and awarded JPY 0.19 billion (US\$ 1.8 million) in damages, but gave no injunctive relief.

Patent infringement litigations between two large Japanese companies are rare. The Tokyo District Court awarded a large sum that is close to what the plaintiff demanded based on Patents 1 and 3.

A series of ITC and Japanese district court proceedings was started by Fujifilm. Fujifilm brought a case before the ITC asserting that Sony infringed on its US 6641891, 6703106, 6767612, 8236434, 7355805 and 6703101 patents in 2016. The '101 patent was dropped from the case. In the final determination issued by the ITC in March 2018, the '106 and '612 patents were found invalid, and the '434 and '805 patents were found not to have been infringed (Patents 1 and 3). The '106 patent was also found not to have been infringed. The '891 patent, which was never asserted to be essential to the LTO-7 standard, was found to have been infringed in violation of section 337. The Japanese patent application corresponding to the '891 patent had been rejected by the JPO. Also, the Japanese court found Patent 2, which is related to the '612 patent, invalid.

Sony fought back and asserted its three US patents against Fujifilm before the ITC and won

⁵ See a blog post entitled: [ITC to consider ALJ's decision and recommended exclusion order on alleged SEPs that ALJ found were not essential to the LTO-7 standard \(337-TA-1012 Fujifilm v. Sony\)](#)

an exclusion order in March 2019. The flow of LTO-7 cartridges into the US had to entirely stop.

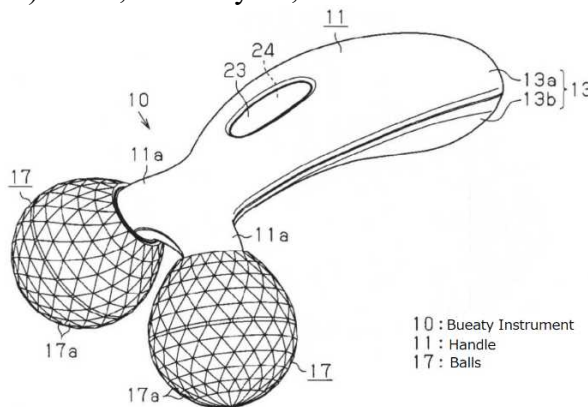
According to media reports in the US, Fujifilm and Sony reached a global cross-licensing agreement in August 2019 to settle all disputes related to LTO-7, allowing the market re-introduction of LTO-8 tape cartridges.

What is remarkable in these cases is that the Japanese court refrained from using traditional factors that would have resulted in a discounted award. As seen in other cases reported in this paper, a district court tends to use a conservative approach, but in these particular cases, the Tokyo District Court took a bold step to award large sums.

Beauty Roller Case

MTG Co., Ltd. v. Five Stars Inc.

Grand Panel of the IP High Court, Case No. 2019(ne)10003, February 28, 2020



Patent drawing from No. 5356625



Defendant's products

MTG (plaintiff-appellant-appellee) asserted two patents, Nos. 5356625 and 5847904, against Five Star (defendant-appellee-appellant), which imports and sells health and beauty products.

The District Court found infringement on patent No. 5847904 and awarded about JPY 110 million (US\$ 1.04 million) in damages and granted injunctions. The damages were calculated based on Article 102(1). The lower court deducted 50% because circumstances existed that the plaintiff could not sell the number of units the infringer sold and multiplied with 10% because the court considered that the infringed patent had only a 10% contribution to the sales of the infringing products. The patentee's products were sold over JPY 20,000 (US\$ 190) while the

infringer's products around JPY 3,000 to 5,000. The plaintiff and defendant both appealed and the plaintiff-appellant increased demand for damages to JPY 500 million.

The Grand Panel set out basic principles that the court should follow and increased the damages to JPY 440 million (US\$ 4.15 million) while agreeing with the lower court on the issue of infringement that the second patent was infringed. It also granted an injunction order.

In doing so, the Grand Panel reiterated the basic principle that the "amount of profit per unit quantity" as prescribed in the main clause of Article 102(1) is the amount of marginal profit obtained by deducting additionally-required expenses directly related to the manufacture and sale of the patentee's products from the patentee's sales (patentee's marginal profits).

Also, the Grand Panel stated that in calculating the amount of damages under Article 102(1), it is presumed that the entire amount of marginal profits obtained by the sale of the patentee's products has been lost, even if the characteristic part of the patented invention is only a part of the patentee's product and does not contribute to all profits from the sale of the patentee's products. The Grand Panel, however, went on to state that other characteristics of the patentee's products, such as use of a solar panel for applying small electric current to the face, which are unrelated to the infringed patent, contributed to the sales, and concluded that the profit the patentee had lost should be 40% of the marginal profit which was found to be JPY 5,546.

The Grand Panel further stated the existing factors related to the "circumstances under which the patentee could not sell" as prescribed in the proviso to Article 102(1) should be (1) the existence of differences between the patentee and infringer in terms of manners of business or prices, etc. (their markets being different), (2) the existence of other competing products in the market, (3) the infringer's sales efforts (brand power, advertising), and (4) the existence of differences in the performance of the infringing products and the patentee's products (features other than the patented invention such as functions and designs), and examined each factor. The Grand Panel concluded that only factor (1) is relevant in this case. Considering the nature of products and price differential, the Grand Panel came up with 50%, and from the total of the patentee's marginal profit of JPY 2,218 per unit multiplied by the number of infringing products at

351,724, with 50% being deducted, to arrived at JPY 390 million, and JPY 50 million was added for attorney fees.

The Grand Panel explicitly stated that a so-called “contribution factor” or “contribution ratio” which measures how much an infringing patent contributes to the sales of the infringing products should not be considered as reason for reducing damages because it is merely a court-created theory and does not have any statutory basis.

The Grand Panel quadrupled the award and in that sense it clearly showed a pro-patentee stance.

This author, however, believes that the Grand Panel could have gone one step further to propose that the marginal profit figure should not be reduced for the reason that features of the patentee’s product that are not covered by the disputed patent contributed to the profits. While the Grand Panel rejected the idea of contribution factor, it effectively replaced it with another balancing factor - the contribution of unpatented features in the patentee’s product to the patentee’s profits.

Because of large price differentials that existed between the patentee’s and infringer’s products, it might be fair to say that even if there was no infringement, the patentee could not have sold the same number of its products as the infringer sold and reduce the number of infringing products used in the calculation. The figures of 40% and 50% the Grand Panel used for the damages calculation are in fact arbitrary and the courts can determine them with its discretionary power. It is preferred to restrict such arbitrary factors to one for the predictability of damages calculation.

Also, it should be noted that under the above-discussed amendments to the Patent Act, the

patentee might have obtained extra damages based on a reasonable royalty for the number of products that the patentee could not sell for given circumstances, if the case is brought before the court now as the amendments took effect on April 1, 2020.

Summary

A good news is that Japanese patents are becoming more valuable than ever. This is in contrast to the fact that the number of patent applications filed in Japan decreased 1.8% in 2019 with 308,000 applications filed. This is part of the long downward trend that started in 2001 at the annual filing level of 440,000 applications. This trend has to be reversed as the number of applications is closely related to the number of inventions made in Japan. Japanese companies are more interested in foreign markets as the number of PCT filings at the JPO increased 6.2% in 2019 compared with the previous year. In order to make the Japanese legal system more attractive to Japanese and foreign IP owners, increasing damage awards is welcomed, but the current state needs to be further improved..

Indeed, the courts are trying to find new approaches that would give a good chance for patentees to recover the costs of patent applications and infringement lawsuits and obtain fair compensations for patent infringement. We still see, however, some conservatism disguised under the veil of pro-patentee stance. This author believes that continuing legislative efforts are required to push the patent litigation reform further and make Japanese patents more valuable to incentivize innovations.

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\* Editor / Patent Attorney, Okuyama & Sasajima



# 2020 LES Japan Annual General Assembly

By Yasuo Fujii, Ph.D.\*

The 2020 LES Japan Annual General Assembly was held in Tokyo on February 19, 2020, while a networking party after the General Assembly was canceled due to concerns about the novel coronavirus (COVID-19) infection.



Mr. Makoto Ogino as Chairman

Mr. Makoto Ogino, LES Japan President summarized the activities in 2019 including the following:

- 1) Launch of new U.S. Issues Working Group for the members in Kansai area in Japan.
- 2) LESI Annual Conference in Yokohama on May 27-28, 2019 with 650 participants.
- 3) Joint Workshop by Working Groups in Oiso on October 11, 2019 with 108 participants.



Speech by Mr. Hiroki Saito

Subsequently, Mr. Hiroki Saito, LES Japan's next President summarized the activity plans in 2020 including the following:

- 1) Launch of new Working Group for young members to facilitate their active networking.
- 2) LES Japan 42nd Annual Conference in Otsu on July 10-11, 2020.



Introduction of new Board members

Then, the selection of the new President, the new Vice Presidents and the other Board members were approved.



Announcement by Mr. Mitsuo Kariya

At the end of the General Assembly, Mr. Mitsuo Kariya, Organizing Committee Chair announced that the LES Japan 42nd Annual Conference will be held on July 10-11, 2020 in Otsu city, Shiga prefecture<sup>#</sup>.

<sup>#</sup> However, the Annual Conference will be postponed to the next summer due to concerns about the COVID-19 infection.

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* Editor / Patent Attorney, Haruka Patent & Trademark

IP News from Japan

By Shoichi Okuyama, Ph.D.*

Music Lesson Providers v. JASRAC

Case No. 2017(wa)20502 and 25300, Tokyo District Court

On February 28, 2020, the Tokyo District Court rendered a decision in favor of a copyright collecting agency in a declaratory judgement action for the confirmation of absence of liabilities between a number of music lesson providers such as Yamaha Music Foundation and JASRAC (Japanese Society for Rights of Authors, Composers and Publishers). JASRAC was established in 1939 as the sole copyright collecting organization for music in Japan. It still occupies a special position in Japan. Since 2000, JASRAC has been asking for a royalty of approximately 2.5% on tuitions private music lesson providers collect from child and adult students, but the providers have refused to pay. The providers involved in this case are related to major music instrument manufacturers and music shop chains, and do not include non-profit institutions such as universities and high schools which are exempted from copyright infringement nor individual teachers. In the meantime, JASRAC started collecting royalties from willing providers in 2018.

Article 22, Copyright Act, stipulates that the author of a work has the exclusive right to give a stage performance or musical performance of the work with the purpose of having it seen or heard directly by the public. JASRAC contends that the provision of music lessons in classrooms is an act of infringement under Article 22. In such classrooms, teachers provide lessons to one or several students using, in many cases, copyrighted music.

A number of issues were disputed in the litigation such as whether lessons are “public”, whether lessons are “heard”, copyright exhaustion (students purchase music scores), and abusive use of rights. Basically, the Tokyo District Court relied on the so-call *Karaoke* Doctrine developed by the Supreme Court in a decision dated March 15, 1988 - Club Cat’s Eye Case - as well as the *Rokuraku II* Supreme Court decision dated January 20, 2011, and found infringement liability.

The *Karaoke* Doctrine was developed to regard *karaoke* providers as actors of infringement. In *karaoke* places, providers manage rooms and *karaoke*

machines and serve food and drinks to consumers who visit and sing songs and pay for the service. The Supreme Court decided that the *karaoke* providers have to pay copyright royalty although customers who sing copyrighted songs are actual infringers. The *Karaoke* Doctrine is, as it turned out, a far-reaching theory for normatively evaluating an entity which is not a direct actor of infringement as an infringer on the basis of "the viewpoint of discipline under the Copyright Act" focusing on two factors: (1) managing and controlling infringing acts, and (2) gaining profit from infringing acts. The *Karaoke* Doctrine has become a legal backbone of many court decisions in Japan including several Supreme Court decisions.

The Tokyo District Court also cited the *Rokuraku II* Supreme Court decision. *Rokuraku II* is the name of a TV receiver-recorder with Internet connection capability. With two *Rokuraku II* machines, one in Tokyo, the other in New York, for example, a viewer can enjoy Japanese TV programs in New York with suitable time shifting. In the particular manner of business which was disputed, the defendant company sold one *Rokuraku II* and rented and kept the other under its custody for reception of TV programs in Japan. A number of broadcasting companies sued the service provider for copyright infringement. It was somewhat questionable if the managing and controlling factor of the *Karaoke* Doctrine was satisfied in this case because the viewer controlled the machine and selected TV programs, but the Supreme Court reversed the high court decision and found infringement. The Supreme Court stated that the reception of TV programs was done under the management and control of the defendant. Effectively, the Supreme Court expanded the scope of its own *Karaoke* Doctrine.

Since the Tokyo District Court is obligated to follow these and other related Supreme Court decisions, the conclusion of this decision was expected. Forcing students, however, pay for extra copyright royalty beyond the price of scores because of music lessons may run against our instinct. On the other hand, this author believes that for fair copyright protection the conclusion is justifiable because students are enjoying extra services, i.e., music lessons.

The music lesson providers have appealed.

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\* Editor / Patent Attorney, Okuyama & Sasajima

## Editors' Note

This issue includes articles, “Message from the New President” by Mr. Hiroki Saito, “[Trademark] ‘Use’ based on sales through an online shop operated by a third party abroad was affirmed - The IP High Court Decision on Jan. 28, 2020, Case No. 2019 (Gyo-ke) 10078 -” by Ms. Hideko Mihara, “Increasing Damages Awarded by the Japanese Courts” by Mr. Shoichi Okuyama, “2020 LES Japan Annual General Assembly” by Mr. Yasuo Fujii, and “IP News from Japan” by Mr. Shoichi Okuyama.

Thank you for supporting “*WINDS from Japan.*” This newsletter will continue to provide you with useful information on activities at LES Japan and up-to-date information on IP and licensing activities in Japan.

If you would like to refer to any back issues of our newsletters, you can access them via the following URL:

<https://www.lesj.org/en/winds/new.php>  
(YF)

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