

**Intellectual Property High Court Grand Panel Decision on the calculation of damages under Paragraphs 2 and 3 of Article 102 (Carbonate Pack Cosmetics Case: IP High Court Judgment on June 7, 2019)**

1. Given that claims for damages based on patent infringement are claims for damages based on tort, the patentee (including exclusive licensees, but hereinafter referred to as the "Patentee") normally must prove its own damage (Article 709 of the Civil Code). However, in order to reduce the patentee's burden of proof under the Patent Act, the following provisions for presuming the amount of damages are generally stipulated (Article 102 of the Patent Act). Article 102 has been partially amended in the amended Patent Act promulgated on May 17, 2019, but this article will not cover the amended law.

Article 102 of the Patent Act

- Paragraph 1: The amount obtained by multiplying the quantity of the infringing product transferred by the infringer by the amount of profit per unit of the patentee's working product may be used as the amount of damages.
  - Paragraph 2: The amount of damages shall be presumed to be the amount of profit received by the infringer from the act of patent infringement.
  - Paragraph 3: The amount of damages shall be an amount equivalent to the royalty.
2. On June 7, 2019, the Intellectual Property High Court handed down a so-called Grand Panel Decision ("the Decision") regarding the calculation of damages in Paragraphs 2 and 3 of Article 102 of the Patent Act. This Decision ruled on (a) the meaning of "the amount of profit received by the infringer from the act of infringement", and (b) the specific details of the circumstances to rebut the presumptions for the amount of the damages (rebuttal of presumption) for (1) Paragraph 2 of Article 102 of the Patent Act; and (a) the calculation method for the "amount equivalent to the royalty", and (b) the thought process behind the royalty rate for (2) Paragraph 3 of the same, so this paper introduces that.

(1) Article 102.2 of the Patent Act

- (a) With respect to "the amount of profit received by the infringer from the act of infringement," this Decision ruled that "it is, in principle, appropriate to construe the amount of profit received by the infringer from the act of infringement prescribed in the same paragraph as the total profit obtained by the infringer, and the total

profit obtained by the infringer should be construed as being equivalent to the presumption under the same paragraph." Moreover, it ruled that "profit" "is the amount of marginal profit obtained by deducting the additionally required costs directly related to the manufacture and sale of the infringing goods by the infringer from the sales of the infringing goods of the infringer, and responsibility for the proof of assertion should be construed as lying with the Patentee." As specific examples of "expenses" to be deducted, it also ruled that "expenses to be deducted refers to additionally required costs directly related to the manufacture and sale of infringing goods, such as raw material costs, purchase costs, and transportation costs for infringing goods. On the other hand, personnel expenses, and transportation and communication expenses for the management department, for example, are not normally considered additionally required expenses directly related to the manufacture and sale of infringing goods."

- (b) With respect to the "rebuttal of presumption", after ruling that "the infringer bears the burden of proof of allegations, and this corresponds to circumstances that hinder legally sufficient cause between the profit obtained by the infringer and the damage suffered by the patentee", it gave the following as specific examples of rebuttals of presumption: "circumstances such as (1) the existence of differences in the business practices of the patentee and the infringer (non-identity of the market), (2) the existence of competing products in the market, (3) sales efforts of the infringer (brand strength, advertising), (4) performance of the infringing products (features other than the patented invention such as function and design)". Furthermore, although it says that "even if the patented invention is exploited only in part of the infringing product, it can be considered as circumstances for a rebuttal of presumption", it ruled that "given that the patented invention is exploited only in part of the infringing product, the rebuttal of the above presumption should not be immediately recognized, but it is appropriate to rule this way by considering the circumstances comprehensively, such as the positioning of the part in which the patented invention is exploited in the infringing product and the ability of the patented invention to attract customers".

(2) Article 102.3 of the Patent Act

- (a) With respect to the method of calculating the "amount equivalent to the royalty", the Decision ruled that "in principle, damages should be calculated based on the sales of the infringing product, multiplied by the rate that should be received for the

exploitation".

- (b) With respect to the thought process behind the royalty rate, the Decision ruled that "when calculating damages, they are not necessarily based on the royalty rate in the license agreement for the patent rights. One should take into account that the royalty rate that should be determined ex post facto and should be received for the exploitation will naturally be higher for those who infringed the patent than the normal royalty rate." With regard to considerations for determining specific royalty rates, it ruled that "(1) while taking into account the royalty rate in the actual license agreement for the patented invention (and if it is not clear, the market price for royalties in the industry), a reasonable rate should be determined by comprehensively considering various circumstances that show up in the lawsuit, such as (2) the value of the patented invention itself—that is, the technical content and importance of the patented invention, and its ability to be substituted with other things, (3) how the patented invention contributes to sales and profits when used in the product, and how it was infringed, (4) the competitive relationship between the patentee and the infringer, and the patentee's business policy." In terms of specific application, in relation to (1) above, the Decision recognizes that "while the litigation does not show the actual royalty rates of the license agreements for each of the patents, recent statistics of the fields to which the technical fields of the patents belong have an average royalty rate is 5.3% according to the survey results of domestic companies and 6.1% according to judicial decisions. There are cases where the settlement amount for infringement of a patent in the same field owned by the appellee was set at 10% of sales."
3. All of the above findings of the Decision are centered on matters that have already been mentioned in academic theories and judicial precedents, and it can be said that they are not particularly new. However, it is necessary to take into account the fact that important matters are determined by considering business.
- (1) Regarding Article 102.2 of the Patent Act, the Decision rules that "the profit is, in principle, the total amount of profit acquired by the infringer," and that "profit" is "marginal profit". This means that even if the invention is related to a part, if the finished product incorporating the part that exploits the invention is infringing, the "marginal profit" obtained from the finished product as a whole is presumed to be the amount of damages. This means that if the parts manufacturer provides a patent

guarantee or indemnification, the maximum risk is the "marginal profit" of the "entire finished product." Of course, the Decision rules that when "the patented invention is exploited only in the parts of the infringing product," "it can be considered as circumstances for a rebuttal of presumptions," but the burden of proof is on the infringer. However, since it is a part, there aren't necessarily grounds for a rebuttal of presumption, but given that it assumes that "circumstances such as the positioning of the part in which the patented invention is exploited and the patented invention's ability to attract customers are comprehensively considered", it is necessary for the infringer to assert and prove these, and if they fail to do so, they will in principle bear the great risk of "marginal profit" of the "entire finished product".

- (2) Regarding Article 102.3 of the Patent Act, it was held that "in principle, the standard for the damages are the sales of the infringing product, and they should be calculated by multiplying the sales of the infringing product by the rate that should be received for exploitation." It specifies that the infringing products are the standard and therefore, from the infringer's standpoint, there is the risk that the entire finished product may become the standard, even if the invention is related to the parts.

On the other hand, if the patent holder cannot assert and prove the actual royalty rate of the license agreement, they could conceivably submit as evidence the "Survey and research report on how patents should be utilized based on the evaluation of intellectual property values —Understanding the actual situation regarding intellectual property (asset) values and royalty rates— (March 2010)" created by Teikoku Databank Co., Ltd., which was used in the Decision. Also, when concluding a settlement agreement for a dispute over your own patent rights, it is important to include the criteria for calculating the settlement amount in the contract (e.g., the preamble may be used).

(References)

Decision by the IP High Court Judgment on June 7, 2019 (Intellectual Property High Court Website)