A LOOK AT DAMAGE AWARDS UNDER JAPAN'S TRADEMARK LAW AND UNFAIR COMPETITION PREVENTION LAW

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Abstract: Although the United States and Japan have similarly worded intellectual property statutes, significant differences in the stated statutory objectives as well as the substantive rights protected by those laws give rise to concern over the scope and quality of intellectual property protection offered in Japan. Collectivist values that frown upon personal gain have contributed to the less-than-adequate enforcement of individual intellectual property rights in Japan, and this socio-judicial ethic has been consistently reflected in the minimal damage awards granted by the courts. The courts' traditionally narrow construction of damage provisions in the intellectual property arena has resulted in the limitation of damage awards to a minimal lost-royalty amount, which in turn resulted in a lack of deterrence effect. A number of recent cases, however, indicate that Japanese courts may be in the process of re-assessing their traditional stance with respect to intellectual property enforcement. This Comment addresses the recent Michelin decision and considers whether this case may represent a shift in Japan's intellectual property jurisprudence.

I. INTRODUCTION

Japan is both a major importer and exporter of intellectual property and has enacted statutes that regulate all aspects of intellectual property rights, namely patent, trademark, and copyright. The statutory language of many of the key provisions in the various intellectual property laws are substantially similar to analogous provisions in their U.S. counterparts. Yet the Japanese conceptualization of the role of intellectual property in society, shaped in part by that country’s unique cultural and political history, has traditionally resulted in strikingly different results with respect to the enforcement of intellectual property laws when compared with the United States (“U.S.”). The distinct conception of private intellectual property rights in Japan is particularly apparent in the Japanese courts’ historic treatment of trademark infringement and acts of unfair competition.


Superficial similarity in legal terminology between the trademark statutes of the U.S. and Japan has created an illusion of jurisprudential likeness. This misconception has been a source of contention and confusion for many foreigners conducting business in Japan. Many U.S. corporations have experienced unexpected defeat in a trademark dispute with a Japanese entity, and cries of unfair trade resulting from such defeat or the award of limited damages for infringement have not gone unnoticed by either the U.S. or Japanese governments. A closer look at the conceptual differences which lie at the foundation of U.S. and Japanese trademark law reveals, however, that the unexpected outcomes of trademark disputes result not from unfair trade practices or a protectionist judiciary but from an altogether different objective behind Japan's trademark and other intellectual property laws when compared to those of the U.S.. Unique social and cultural values continue to play a large part in the shaping of Japanese intellectual property jurisprudence. Those unique values are evident in the objectives that propel the intellectual property laws and the manner in which those laws are applied by the Japanese courts to present-day disputes.

In recent years, however, the Japanese government has indicated a recognition of the need for stricter enforcement of intellectual property rights—enforcement more in line with the standards adopted in other western industrialized nations. In 1997, a government sponsored commission comprised of scholars, practitioners and business persons conducted a thorough analysis of the protections afforded intellectual

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4 See Rosen & Usui, supra note 3, at 46. The case of Fusion Technology, a patent-related dispute between a small U.S. corporation and Mitsubishi Electric, is typical, albeit larger in scope, of the kinds of disputes that have characterized U.S.-Japan trade relations with respect to intellectual property. The significant role played by lobbyists and powerful members of Congress in this particular dispute is indicative of the importance and influence of such disputes on U.S. trade policy in general.

5 Id. at 46-47.

6 Id.

7 See Toshiko Takenaka, Calculation of Damages for Patent Infringement—A Comparative Analysis, in CURRENT TOPICS IN INTELLECTUAL PROPERTY LAW 103, 125 (Hatsumei Kyokai ed., 1998). See also Port, supra note 2. Trademark Law art. 1 states: "By protecting trademarks, this law aims to maintain trust in the business of trademark users and thereby to contribute to the growth and development of business and to protect the interests of the consumer." (author's translation).

8 Garroussi, supra note 3, at 77.

9 See Takenaka, supra note 7, at 123.

property rights in Japan and reviewed the application of existing damages provisions to recent intellectual property cases.\textsuperscript{11} This review resulted in the most recent amendments to the Patent Law with respect to damages,\textsuperscript{12} and it has brought attention to similar needs in other areas of intellectual property, including trademark and unfair competition.

This Comment begins with a brief look at the differing statutory objectives behind U.S. and Japanese Trademark Law. The discussion of the objectives is intended to provide some insight into the nature of the limited damages traditionally awarded in Japanese intellectual property infringement cases. Part III provides an analysis of the remedies currently available under the existing Japanese trademark statute. Part IV of this Comment then considers how existing damage provisions are applied by the Japanese courts. The Comment concludes by introducing a recent case, Companie Generale d'Establishment Michelin v. Michelin decided under the Unfair Competition Prevention Act,\textsuperscript{13} in which a Japanese court awarded substantial damages for the unfair use of a famous trade-name. Finally, Part IV of this Comment will find that Japan's traditional collectivist values that are manifest in the inadequate enforcement of intellectual property rights are slowly changing to accommodate the realities of an increasingly intellectual property based economic system. Michelin indicates a responsible shift in Japanese intellectual property jurisprudence which allows for both the finding of infringement liability with greater ease than in the past and the award of damages in an amount likely to deter repetition of similar conduct.

While this Comment focuses on damage provisions of the Trademark Law, it also considers the Unfair Competition Prevention Act. Some marks (not limited to trademarks, but also trade-names and service-marks), although valid outside of Japan, do not have trademark status within Japan because of the country's rigid "first-to-file" registration system.\textsuperscript{14} Such marks are necessarily considered under the Unfair Competition Prevention Act.

\textsuperscript{11}COUNCIL ON INDUSTRIAL PROPERTY RIGHTS, SUB-COMMITTEE REPORT ON DAMAGES AND OTHER REMEDIES (1997) (hereinafter "SUB-COMMITTEE REPORT ON DAMAGES AND OTHER REMEDIES"). Although the analysis focused primarily on the Patent Law, for a number of reasons an analysis of the Committee's findings are valuable in assessing application of the existing damages provisions under the Trademark and Unfair Competition Prevention Laws. The similarity of statutory objectives behind enactment of the various intellectual property laws, parallel damage provisions in those laws, and frequent application of patent law principles mutatis mutandis to disputes under other intellectual property laws, particularly under the Trademark Law, makes consideration of the Committee's findings with respect to the Patent Law meaningful in an analysis of trademark infringement.


II. DAMAGES UNDER JAPAN’S CURRENT LAWS

While application of the damages clauses in both the Trademark and Unfair Competition Laws has traditionally resulted in limited awards,\(^{15}\) this is not an inherent limitation of the statutory provisions, but results mainly from the narrow interpretation and application of these provisions by the courts.\(^{16}\) Traditional collectivist values that frown upon personal gain have contributed to the inadequate enforcement of individual intellectual property rights in Japan.\(^{17}\) However, an awareness of the need for stronger intellectual property protection is growing within both the Japanese government and the judiciary.\(^{18}\) Owing in part to increased international business contact with the West, traditional Japanese values are beginning to make room for different modes of thought, particularly with respect to intellectual property rights.\(^{19}\) The change is manifest in a broader construction of the damages provisions of the intellectual property laws given by the courts, which has resulted in larger damage awards in certain instances of infringement.\(^{20}\)

A. Differing Statutory Objectives

The use of superficially similar terms in the Japanese and U.S. trademark laws is misleading in that it camouflages the distinctly different objectives expressed by each statute.\(^{21}\) As with many other aspects of Japanese culture, Japan’s trademark law seeks to further the interests of the collective whole—society at large—through the implementation of a system that protects the value of a mark and business associated with any such

\(^{15}\) See discussion infra Part III.A; see also Shuichi Sakuma, Compensation for Damages in Cases of Infringement of Intellectual Property, INSTITUTE OF INTELLECTUAL PROPERTY BULLETIN.

\(^{16}\) See Takenaka, supra note 7, at 125. Japanese trial court judges have broad discretion in fashioning damage awards. Trademark Law art. 38 § 3 and its parallel provision in Unfair Competition Prevention Law art. 5 § 3 state “[I]f there is no malicious intention or gross negligence on the part of the person who has infringed a trademark right or exclusive use right, the court may take this into account in determining the amount of damages.” (author’s translation). This provision grants the court the discretionary power of additur and remittitur which the Japanese courts readily exercise.

\(^{17}\) See Rosen & Usui, supra note 3.

\(^{18}\) REPORT OF THE COMMISSION ON INTELLECTUAL PROPERTY RIGHTS IN THE TWENTY-FIRST CENTURY, supra note 10.

\(^{19}\) Rosen & Usui, supra note 3, at 49.


\(^{21}\) See Port, supra note 2, at 259.
It is not surprising then, that protection of consumer interests in the context of the Japanese Trademark Law refers generally to the maintenance of "consumer confidence and trust in the business of trademark users, and thereby to [the] contribut[ion] of the growth and development of business," rather than protection of the right of third parties to use a trademark.

In contrast, U.S. trademark law has as its objective the protection of the trademark holder's goodwill, the protection of the public from deception, and protection of third party rights to use a trademark. As is often pointed out, the U.S., in comparison to Japan, places great emphasis on individual rights and in no area of the law is that orientation more apparent than in the recognition and protections offered intellectual property right holders. The U.S. system is predicated on private gain, where financial incentives protected by the law encourage individual actions that further private (rather than societal) interests.

These distinct conceptual differences between U.S. and Japanese law are apparent not only in the context of trademarks, but are shared by other intellectual property laws. The goals and purposes set forth in the copyright laws of the two countries provide a useful example. The copyright clause of the U.S. Constitution seeks "to promote the Progress of Science and the useful Arts, by securing for Limited Times to Authors and Inventors the exclusive Right to their respective Writings and Discoveries." In effect, it provides what one commentator has termed a "social bribe" to ensure continued output by the responsible individual. On the other hand, the Japanese copyright law refers to the "promotion and protection of the rights of authors, giving consideration to a fair exploitation of these cultural products, and thereby . . . contributing to the development of culture." Social betterment as an objective pervades Japanese intellectual property law, while protection of individual rights dominates in the U.S..

In the framework of these culturally distinct statutory objectives, the divergent results of factually similar trademark disputes and/or damage
awards for infringement between the two countries are not surprising.\textsuperscript{31} As one commentator has stated, Japanese intellectual property law, like Japanese society, "considers the interaction of individuals and society simultaneously, and values the correlative responsibilities at least as highly as the individual rights."\textsuperscript{32} American law, like American society, "begins with the premise that the whole prospers by giving as much protection to the individual as possible."\textsuperscript{33} The traditional socially mandated sharing of intellectual property has led to the development of a practice by the Japanese courts of awarding damages that provide little, if any, incentive not to infringe another's intellectual property rights.\textsuperscript{34} To a large degree, Japanese courts still adhere to the collectivist work ethic and award only minimal damages.\textsuperscript{35} In doing so, courts have attempted to discourage what has been referred to as "industrial selfishness."\textsuperscript{36}

However, while the stated objectives of the trademark statute and other intellectual property laws remain the same and cultural constraints still exist, Japan has begun to recognize a need for increased protection of valid intellectual property rights.\textsuperscript{37} With the expansion of the global economy, Japan's increased intellectual property-related exports, and the attendant challenges of piracy and infringement faced by Japanese right-holders overseas, the country has undertaken a thorough examination of the adequacy of the existing legal framework for enforcement of intellectual property rights in Japan.\textsuperscript{38} The courts in some ways are spearheading this movement. \textit{Michelin},\textsuperscript{39} the unfair competition case discussed below in Part

\textsuperscript{31} Port, supra note 2, at 260. The difference between the Japanese and American usage and meaning of the term "damages" itself can be a source of confusion for the unknowing. In the U.S., an infringer's profit, while a possible remedy for an aggrieved individual, is not considered a measure of damages. In contrast, in Japan, an infringer's profit is a statutorily defined measure of damages in every area of intellectual property. This example illustrates the significant substantive differences that may be hiding behind superficially similar terminology.

\textsuperscript{32} Rosen & Usui, supra note 3, at 34.

\textsuperscript{33} Id.


\textsuperscript{35} Takemaka, supra note 7, at 122.

\textsuperscript{36} Rosen & Usui, supra note 3, at 53.

\textsuperscript{37} See SUB-COMMITTEE REPORT ON DAMAGES AND OTHER REMEDIES, supra note 11.

\textsuperscript{38} Id. at 1. The statement of purpose in the SUB-COMMITTEE REPORT ON DAMAGES AND OTHER REMEDIES indicates that the Committee was sensitive to the fact that the then existing (Patent) law offered inadequate protection of intellectual property (patent) rights and that continuation of the current situation would likely detract from any incentive towards creative development and international competitiveness. The Patent Law has since been amended.

\textsuperscript{39} Companie Generale d'Establishment Michelin v. Michelin, 1638 HANREI JIHÔ 57 (Tokyo Dist. Ct., Mar. 30, 1998). See discussion \textit{infra} Part III.B.
III, is just one recent example of a change in the Japanese courts' posture towards the enforcement of intellectual property rights.\(^\text{40}\)

B. Relationship Between the Various Intellectual Property Laws

As stated above, the major Japanese intellectual property laws share a number of common characteristics.\(^\text{41}\) While the specific commonalities and their historic backgrounds are beyond the scope of this paper, a cursory explanation of the relationship between the various laws is instructive in understanding the nature of damages awarded.\(^\text{42}\) In Japan, as in all civil law jurisdictions, statutes fall into one of two categories: \textit{ippan-hō} (general laws) and \textit{tokubetsu-hō} (special laws).\(^\text{43}\) \textit{Tokubetsu-hō} are subordinate to \textit{ippan-hō}, and multiple special laws can fall under one general law.\(^\text{44}\) The relationship between the Trademark Law and the Unfair Competition Prevention Law, for purposes of this paper, can be defined by these concepts; the Trademark Law is a \textit{tokubetsu-hō} subordinate to the general Unfair Competition Law which regulates all acts of unfair competition in trade.\(^\text{45}\) As such, claims of trademark infringement are not limited to the Trademark Law, but can be brought under the Unfair Competition Prevention Law as well.\(^\text{46}\) Delict, on the other hand, the civil law equivalent to a common law tort, is a general law and damages for liability in delict are governed by Article 709 of the Civil Code ("Article 709").\(^\text{47}\) Infringement liability in delict, for reasons discussed in Part II.C, is difficult to establish...
and in cases of intellectual property infringement, damages are most frequently claimed under the relevant damage provision of the appropriate intellectual property statute.48

Once liability is found in an intellectual property infringement case, damages are awarded based on the damage provision available under the relevant statute.49 In Japan, the damage provisions of the various intellectual property laws are the same across the board with a few minor exceptions.50 Thus, the Patent Law, the Trademark Law, the Copyright Law, and the Unfair Competition Prevention Law provide for the same two methods of damage calculation—infringer’s profits and lost royalties.51 Because all of the major intellectual property laws share a common damage provision, it follows that the method of damage calculation and ultimate amount of damages awarded are not affected by the choice of law under which liability is established. In other words, the theory on which liability is based (for example, “pure” trademark infringement versus unfair competition) has little relevance in terms of the court’s choice of method by which to calculate damages, since under the existing provisions damages are determined in one of two available damage calculation methods, regardless of the specific intellectual property law under which liability is determined.52

The damage provisions under each separate law have been applied by the courts based on policy considerations and social perceptions common to all of the intellectual property laws.53 The court’s reasoning behind a damage award in any given intellectual property case has often been stated in terms that reflect the social constraints and objectives shared by the intellectual property laws.54 The court’s common practice of referring to

48 See infra Part II.C.
50 See supra note 12 and accompanying text. Each intellectual property law includes a damage provision paralleling and substantially similar to the damage provisions in the other intellectual property laws. But see infra note 57.
51 The key language of the damages provision under the various laws indicates that “the amount of profit [from the act of infringement concerned] shall be presumed to be the amount of damages sustained” or in the alternative “the money amount equivalent to the money amount that should be received for the use of the [registered trademark, patent, copyright etc.]” TOKKYO-HÔ [PATENT CODE] Law No. 121 of 1959; Shohyo-HÔ [Trademark Law], Law No. 65 of 1992; Chosakuken-HÔ [Copyright Law], Law No. 48 of 1970, FUSEI KYOSO BOSHI-HÔ [Unfair Competition Prevention Law], Law No. 14 of 1934 (author’s translation). In addition to the above two methods made available by the intellectual property laws, Article 709 offers traditional compensatory damages for any established liability in delict.
52 See TRADEMARK LAW, ANNOTATED, 609-636 (Shoen Ono ed., Seirin Shoin 1994). (Scholarly expositions on calculation of damages under the Trademark Law are discussed in reference to the determination of damages under other intellectual property laws, particularly the Patent Law).
53 See supra Part II.A.
54 See Toshiko Takenaka, supra note 7.
cases from areas of intellectual property law unrelated to that concerned in a particular dispute indicates the judiciary’s recognition of two things: the fundamental commonality of the (intellectual property) laws’ objectives and the shared rationale behind application of the damage provisions therein. Clear examples can be seen in the courts’ common reference to patent damage provisions in the assessment of damages for trademark infringement, and reference to trademark damage provisions in assessing damages under the Unfair Competition Prevention Law. Thus in Japan, the particular statute implicated in an intellectual property infringement dispute has been significant mainly in the context of liability and arguably has had little bearing on the final outcome of the method of damage calculation or the ultimate amount awarded.

C. Damages Currently Available for Trademark Infringement

Damages in Japan have traditionally been evaluated in one of three ways: by lost profits under Article 709, by infringer’s ill gotten profits or by the owner’s lost royalties under the appropriate intellectual property law. The choice of method by which damages are calculated is at the discretion of the trial judge and often depends on what the court feels is appropriate. Under Article 709, compensatory damages are available to remedy any actual injury sustained by a right-holder. However, because the successful claim of a compensable injury under Article 709 requires that a plaintiff establish the occurrence of the injury, the cause-effect relationship between the act of infringement and the injury, and the actual loss sustained (in monetary terms), Article 709 claims are extremely difficult to sustain.

Article 38 of the Trademark Law (“Article 38”) was adopted in recognition of the need for a standardized approach to damage calculation. The amendment shifts the burden of proof to the defendant, once the patentee shows a reasonable probability of causation, to establish that no causal connection exists between defendant’s use of the allegedly infringing property and patentee’s injury. Patent Law, Law No. 121 of 1959, amended, Law No. 51 of 1998, art. 102, § 1. Where defendant cannot meet its burden, regardless of whether patentee is exploiting the patent at issue, patentee can recover damages for lost profits. In other words, the new provision creates a presumption that damages for patent infringement equal lost profits. This indicates a dramatic shift from the traditional use of infringer’s profit or reasonable royalty as the yardstick for infringement damages and could have a profound effect on the calculation of damages under remaining intellectual property laws. The new amendment also increases the standard royalty rate where damages are calculated under a “reasonable royalty method,” and extends damage recovery for patent infringement to the entire product and all convoyed sales. See also supra note 51.

56 MINPo [CIVIL CODE] Law No.89 of 1896, art. 709.
57 A recent amendment to the Patent Law shifts the burden of proof to the defendant, once the patentee shows a reasonable probability of causation, to establish that no causal connection exists between defendant’s use of the allegedly infringing property and patentee’s injury. Patent Law, Law No. 121 of 1959, amended, Law No. 51 of 1998, art. 102, § 1. Where defendant cannot meet its burden, regardless of whether patentee is exploiting the patent at issue, patentee can recover damages for lost profits. In other words, the new provision creates a presumption that damages for patent infringement equal lost profits. This indicates a dramatic shift from the traditional use of infringer’s profit or reasonable royalty as the yardstick for infringement damages and could have a profound effect on the calculation of damages under remaining intellectual property laws. The new amendment also increases the standard royalty rate where damages are calculated under a “reasonable royalty method,” and extends damage recovery for patent infringement to the entire product and all convoyed sales. See also supra note 51.
58 See Takenaka, supra note 7, at 114.
59 Id. at 104.
60 Takahashi, supra note 41, at 56.
of this difficulty. This provision was aimed at substantially easing the burden of proof on the injured party by establishing a presumption that the infringer’s profit is the proper basis for calculation of damages.

Since Article 38 did not preclude a claim for damages under Article 709, a trademark holder whose rights have been infringed can elect to assert a claim for lost profits under the general provisions of Article 709, infringer’s profits (presumed damages) under Article 38 Section 1, and/or lost royalties under Article 38 Section 2. Traditionally, parties made claims under Article 38 Section 1 and Article 38 Section 2 in the alternative, with the court generally granting damages under the latter. Before examining the trend in types of damages awarded, it is instructive to look at the construction given to Article 38 by the Japanese courts.

1. Article 38 Section 1

Article 38 Section 1 ("Section 1") establishes a presumption that the compensable injury suffered by a trademark holder is equal in amount to an infringer’s profit, gained through the infringing use of a valid trademark. The adoption of Section 1 was intended to ease the injured party’s burden under Section 709 of proving the actual monetary loss sustained. The provision has not, however, been applied consistently in accordance with the original intent behind its adoption, and the court imposed requirement that a plaintiff establish an infringer’s profit in a specific amount has frustrated the goal of easing the plaintiff’s burden of proof. The inability to compel documents, especially financial documents, in the absence of a court order has made the establishment of the nexus between the act of infringement and an infringer’s profit difficult. This difficulty has contributed to the courts’ prevalent use of lost royalties, rather than infringer’s profit, as the appropriate measure of damages. Section 1 states:

61 Id. at 56.
62 Id.
63 MINPO (CIVIL CODE) Law No. 89 of 1896, art. 709.
64 Shohyo-Hō (Trademark Law) Law No 64 of 1992, art. 38 § 1.
65 Id. § 2.
66 Takahashi, supra note 41, at 57.
67 Id. at 56.
68 Id. at 57.
69 Id. at 57-58.
70 Sakuma, supra note 15, at 60.
71 See discussion infra Part III.A; see also Sakuma, supra note 15.
[W]here a trademark owner . . . makes a claim for damages against a person who has willfully or by negligence infringed his trademark right, . . . and such person has gained a profit from the act of infringement concerned, the amount of profit gained shall be presumed to be the damage sustained by the trademark owner.\(^72\)

In other words, under this provision, a legal presumption that the trademark holder’s lost profit is equivalent to the infringer’s profit should operate to ease the trademark holder’s burden of establishing actual injury in terms of monetary damage sustained.\(^73\)

The courts have, however, limited the functional use of Section 1 by creating a number of implicit requirements.\(^74\) First, the courts have implied an “actual use” requirement whereby damages can be claimed only when the trademark is in current business use by the registered mark holder.\(^75\) Second, the courts have limited “presumed damages” under Section 1 to lost monetary profits of the infringer.\(^76\) The Osaka District Court has defined damages under Section 1 as follows:

[D]amages refers to the actual loss sustained by the trademark holder; such losses must be comparable in type and nature to those profits gained by the infringer through his acts of infringement. In other words, it is understood that (damages indicates) lost monetary profits suffered where the trademark holder has a valid and registered trademark from which he is presently deriving a profit.\(^77\) (emphasis added).

A compensable injury under Section 1 will be presumed only upon a showing that an injury to the trademark holder has resulted from an act of infringement of a trademark currently in use, and that the infringer derived a profit from such infringement in a specified amount.\(^78\) Thus, despite the fact

\(^{72}\) Shohyo-Hō [Trademark Law] Law No.65 of 1992, art. 38 § 1

\(^{73}\) Takahashi, supra note 41, at 57.

\(^{74}\) Id.

\(^{75}\) Id.

\(^{76}\) Id. Presumed damages under an infringer’s-profit theory do not include damages for emotional distress resulting from the infringement nor do they include legal fees. Id. Further, the concept of “monetary profits” itself raises intricate questions not dealt with in this Comment, as to whether the profits are properly calculated as net or gross profits.

\(^{77}\) 13 MUTAISHU 82 (Osaka Dist. Ct., Sept. 14, 1979), quoted in Takahashi, supra note 41, at 57 (author’s translation).

\(^{78}\) Takahashi, supra note 41, at 58.
that Article 38 was adopted to allow a presumption of the injury sustained by the trademark holder, the judicial requirement that a plaintiff establish an infringer’s profit in a specified amount has weakened the intended burden-easing effect of Section 1. 79 Not surprisingly, the difficulty of establishing an infringer’s profit has limited the award of damages under an infringer’s-profit method of damage calculation.

a. Occurrence of an injury

Commentators often state that the “occurrence of an injury” will be presumed where a showing is made that the trademark holder and the infringer are engaged in the same type of business. 80 However, this is a somewhat misleading statement in that the courts have read a number of implicit qualifications into the meaning of the phrase “same type of business.” 81 There are four possible situations that should be considered. 82 First, where a registered trademark is not in actual use and the trademark holder is not engaging in any business activities, there is no business that falls under Section 1. 83 Second, where the trademark holder is engaged in the same type of business as the infringer, but is using a trademark other than the registered trademark at issue in the conduct of that business, a court will not find that the “same type of business” requirement is satisfied. 84 Third, where the registered trademark is in actual use by the trademark holder, but with regard to a different product/service than that offered by the infringer, courts will again decline to find that the “same type of business” requirement is met. 85 Finally, only where the registered trademark is in

79 See generally Takahashi, supra note 41.
80 Shozo Yoshiwara, Factual Requirements in a Suit for Damages for Patent Infringement, in CURRENT ISSUES IN INTELLECTUAL PROPERTY LAW 186.
81 Takahashi, supra note 41, at 58.
82 Id.
83 Id.
84 Id. The trademark at issue in this type of situation (i.e., the trademark being “infringed”) is considered a “stock trademark,” in other words a trademark that has been validly registered but is lying unused by the registrant. In such a case, since no causal relationship can be established between infringement of the unused trademark and injury suffered by the trademark holder, the courts generally refuse to find that the “same type of business” requirement has been fulfilled. See 992 HANREI JIHÔ 93 (Nagoya Dist. Ct., Apr. 25, 1980) where the court refused to apply Section 1 of Article 38 to a registered trademark not then in use, and 13 MUTAISHU 71 (Osaka High Ct., Feb. 19, 1981) refusing to apply Section 1 of Article 38 to seven registered trademarks not then in use.
85 Takahashi, supra note 41, at 58. Courts appear to interpret the implicit “same product” requirement strictly. In one case, the Osaka District Court found no infringement where one manufacturer of paper products used a substantially similar mark on its envelopes and stationary even though the mark holder, another paper manufacturer, held the valid registration to use such mark on its envelopes. The court found that to the extent that the non-registered user placed the mark on its stationary, that was a sufficiently
actual use by the trademark holder with respect to the same product/service as that offered by the infringer will the Japanese court find that the "same type of business" requirement is satisfied.\(^{56}\)

Thus, for a court to recognize the occurrence of a compensable injury under Section 1—that the parties are engaged in the "same type of business"—a trademark holder must show not only that he is actually using his registered trademark, but that the trademark is currently in use on a product in direct competition with the infringer's product.\(^{57}\) Only when this is established will a court consider the next step, infringer's profits.

**b. Infringer's profits**

Damages under a "presumed damage" method of calculation will not be awarded unless the trademark holder can establish a specific monetary amount that constitutes the infringer's profit.\(^{88}\) Courts have varied their holdings as to the definition of "infringer's profit" as well as the appropriate scope of the trademark holder's burden of proof.\(^{89}\)

Courts have generally recognized gross revenues as the basis of the damages to be awarded,\(^{90}\) placing the burden of proof upon the infringer to establish any portion of such revenue that should not be included in the damages ultimately awarded to the right-holder.\(^{91}\) The current trend, however, appears to be moving away from distinguishing between gross and net revenues. Courts are increasingly making an independent determination of the infringer's profit from the evidence submitted, apportioning such

different product from envelopes for which the mark holder had registered. See 16 MUTAISHU 832 (Osaka Dist. Ct., Dec. 20, 1984).

\(^{56}\) Takahashi, supra note 41, at 58.

\(^{57}\) Id. A Tokyo District Court opinion has held that the product carrying the trademark at issue must be marketed in Japan. 1457 HANREI JIHO 137 (Tokyo Dist. Ct., Mar. 24, 1992).

\(^{88}\) Takahashi, supra note 41, at 59.

\(^{89}\) The courts do not appear to have a uniform definition for "infringer's profit." However, the majority of courts appear to use gross revenues as the basis for damages under an infringer's profit method of calculation. See 13 MUTAISHU 71 (Osaka High Ct., Feb. 19, 1981). The court stated: "infringer's profit indicates the 'gross revenue' calculated by multiplying the amount of profit gained by the infringer through the sale of the product carrying the substantially similar trademark with the total number of such products actually sold." See also 17 MUTAISHU 311 (Osaka Dist. Ct., June 28, 1985), for a shift in the burden of proof from plaintiff to defendant to establish gross amount to equal infringer's profit. The court held that net revenue is the appropriate base for calculation of infringer's profit, and indicated that once the plaintiff has established gross revenue, the burden of proof shifts to the defendant to show appropriate amounts to be deducted from such gross to reach the actual or "net" revenue basis for calculating infringer's profit.

\(^{90}\) Takahashi, supra note 41, at 59. Cases differ as to whether "infringer's profit" refers to gross or net revenue but a majority of courts seem to accept gross revenue as the appropriate measure. Generally, gross revenue is the sale price less direct expenditure while net revenue is gross revenue less marketing or maintenance or depreciation costs.

\(^{91}\) Id. See also 20 MUTAISHU 209 (Tokyo Dist. Ct., April 27, 1988).
amount between the right-holder and infringer as it sees fit without reference to the “net” or “gross” nature of profits. Thus, where an infringer fails to establish that factors other than the use of the trademark contributed to the profits gained (thereby failing to establish any basis for the apportionment of profits between the parties), courts tend to recognize the entire amount of an infringer’s profit as the injury sustained by the mark holder.

2. **Article 38 Section 2**

As an alternative to a claim of damages calculated under the infringer’s profit method of Section 1, a right holder whose trademark has been infringed can make a claim for reasonable royalties under Article 38 Section 2. The provision states: “A trademark holder or exclusive licensee thereof may claim as damages against any party that infringes, whether with negligence or with intent, such trademark right, an amount equal to a reasonable royalty.” Japanese courts have traditionally awarded more damages under a lost-royalty theory than an infringer’s profit theory. In fact, a prevalent interpretation of the damage clauses found in the various intellectual property laws sets the lost-royalty measure of damages as the base to which an adjustment can be made to arrive at an appropriate damage award. Based on the collectivist construction of the objectives underlying Japanese intellectual property statutes as discussed in Part II.A, courts have traditionally placed more emphasis on the protection of a negligent infringer’s rights than on those of a legitimate right holder.

A recent survey indicates that both in terms of the number of claims recognized and the ultimate amount awarded, damage claims for a reasonable royalty are more frequently awarded than claims under a theory of infringer’s-profits.

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93 Takahashi, *supra* note 41, at 60.
95 See Takenaka, *supra* note 7, at 108.
96 *Id.* This interpretation has been made apparent in the context of damages in patent infringement cases, but because the damages provisions are analogous across all intellectual property laws, the same can be said of damages under the Trademark Law. See *supra* Part II.B.
97 See Takenaka, *supra* note 7, at 108.
98 Sakuma, *supra* note 15, at 60. See discussion *infra* Part III.A.
D. The Unfair Competition Prevention Law

In May of 1993, a new set of amendments to the Unfair Competition Prevention Law ("UCPL") were promulgated by the Ministry of Justice. The original law was enacted in 1934, and excluding the June 1991 introduction of a new trade secret law, it had remained substantially unchanged. The most recent amendments, however, have had a major effect on the UCPL. The amendments provide greater protection to famous, "well known" marks (which are unregistered as trademarks in Japan), prevent the unauthorized use of trade indicia with regard to both goods and services, extend protection to the configuration of goods, and not the least of all, adopt a provision for damages in line with the specific intellectual property laws as described above.

Under the original law, acts of unfair competition were governed by Article 1 which stated: "any person who engages, negligently or intentionally, in designated [acts] . . . , shall be liable for damages to another who's business profits are hurt by reason of such person's acts." This provision merely provided for liability in delict for acts of unfair competition, and required that certain factors including a causal relationship between the competitor's acts and the plaintiff's alleged injuries, as well as a compensable injury of specified amount, be established by the plaintiff before damages would be awarded.

These requirements, essentially the same as those under Article 709, presented a large hurdle for the plaintiff in finding recourse under the UCPL. The difficulties of establishing the substantive elements required by Article 709 (discussed above) were paralleled in the requirements of the UCPL prior to its 1993 amendment, and those difficulties placed severe restrictions on the successful assertion of claims under the UCPL. The newly adopted Article 5 of the UCPL, analogous to Article 38 of the Trademark Law, substantially eases the burden of establishing a claim under the UCPL by setting in place a presumption that the injuries sustained by plaintiff are equivalent to the profits of the party engaging in unfair competition. Also in line with Article 38 of the

101 See Yamamoto, supra note 49, at 175.
102 Id.
103 Takahashi, supra note 41, at 66.
104 Id.
105 Id. See supra Part II.C.
106 Unfair Competition Prevention Law art. 5 § 2.
Trademark Law, the UCPL allows for damage awards under either the presumed “infringer’s-profit” theory or a lost royalty theory.107

Another crucial amendment to the UCPL was the adoption of Article 2 Section 2.108 Prior to the 1993 amendment, UCPL Article 2 protected “widely known” trade indicia, which included trademark, trade-name and configuration, only to the extent that such indicia were recognized throughout the area in which the unauthorized use was sought to be enjoined.109 In order to establish the “widely known” nature of a mark, a showing that the use of such mark by the unfairly competing party had caused or was likely to cause public confusion was required.110 The newly amended law, in contrast, extends the scope of protection to include “well-known” trade indicia (distinguished from previously protected “widely known” indicia), marks that have achieved such a high degree of recognition that they are properly “regarded as property and protected from misappropriation whether or not any confusion is caused by its unauthorized use.”111

Under the new law, “well known” indicia of trade is defined as an indicia that is recognized throughout Japan because of intensive advertisements and promotion by the owner or through use by the owner over an extended period of time.112 Once a “well known” reputation throughout the country has been established, confusion or likelihood of confusion need not be proven.113 The plaintiff’s burden of establishing such factors as similarity in the area of trade between the plaintiff and defendant in order to show the existence of confusion is thus eliminated.114 The impact of this provision is particularly far-reaching since it extends protection to non-registered trade indicia including trademark and trade-name without requiring a showing of confusion.115 Thus, the combined effect of Article 2 Section 2 and Article 5 has been to extend a means of recourse to heretofore unprotected trade indicia that were otherwise vulnerable to infringement.

107 Id. §§ 2-3
108 Id. art. 2 § 2.
110 Id. See also Curci & Takura, supra note 14, at 73.
111 Yamamoto, supra note 49, at 176 (emphasis added).
112 Id.
113 Id.
114 Id.
115 See id at 177.
III. ANALYSIS OF ACTUAL DAMAGE AWARDS

A. Survey of Recent Trademark and Unfair Competition Cases

A survey conducted by the Japan Institute of Intellectual Property, of over 400 intellectual property infringement damage awards across all of the major areas of intellectual property, found that the most prevalent and most commonly recognized damage claims were those made under a theory of lost-royalties.\textsuperscript{116} This outcome was not surprising since a reasonable royalty rate is, in most circumstances, less than any measure of profit or loss.\textsuperscript{117} However, a more narrow review of the study focusing only on trademark and unfair competition claims revealed that, both in terms of the ultimate success of the claim and the actual size of the award, a claim pursuant to an infringer’s-profit theory was recognized almost as frequently as a claim made under a theory of lost-royalty.\textsuperscript{118} Very few claims were made under a pure lost-profit theory, and not surprisingly, only minimal damages were awarded even in successful instances of claims pursuant to that theory.\textsuperscript{119}

In the survey, 296 cases of intellectual property infringement raised in 1995 before various Japanese courts were analyzed according to area of law and method of calculation under which damages were claimed.\textsuperscript{120} However, taking into consideration the fact that in many instances multiple parties were involved, multiple infringements were found and/or conjunctive claims were made in addition to the principal claim, the actual number of claims reviewed was 432.\textsuperscript{121} Of the 432 claims, seventy involved trademark infringement and forty-three involved unfair competition.\textsuperscript{122}

\textsuperscript{116} See Sakuma, supra note 15, at 60. The actual cases upon which the statistics in this paper are based were presented in the appendix to a report issued by the Institute for Intellectual Property. INSTITUTE FOR INTELLECTUAL PROPERTY, 1996 REPORT ON ADEQUACY OF CIVIL REMEDIES FOR INTELLECTUAL PROPERTY INFRINGEMENT 83.

\textsuperscript{117} Reasonable royalty rates in patent infringement cases, prior to the recent amendments, were often determined with reference to the official royalty-rate schedule published for the licensing of government owned patents. Although no official guidelines exist for determining a reasonable royalty rate for damages in a trademark infringement or unfair competition situation, courts often follow the patent law rate schedule. In patent infringement cases, the average amount claimed is 5.4% while the average amount awarded is 4.2%. See INSTITUTE FOR INTELLECTUAL PROPERTY, supra note 116.

\textsuperscript{118} See generally Sakuma, supra note 15. A reasonable royalty remains the most prevalent type of damages awarded in utility model, design, and copyright infringement cases as well as in patent cases, although the effect of the recent amendments remains to be seen.

\textsuperscript{119} See Sakuma, supra note 15, at 57.

\textsuperscript{120} Id. at 55.

\textsuperscript{121} Id.

\textsuperscript{122} Id.
Lost profits as a measure of damages were claimed by few plaintiffs, in both trademark infringement and unfair competition claims. In fact, lost profits were claimed as the measure of damages in only four trademark cases and nine unfair competition cases. Since three of the four trademark claims and eight of the nine unfair competition claims were dismissed, the survey was left with only a single instance in both the trademark and unfair competition areas, of damages awarded according to a lost-profit method of calculation. The actual award in those instances was only three percent and thirty-five percent of the amount claimed, respectively. Although the number of claims considered here is too small a sample upon which to base any meaningful conclusion, the low claim rate for lost-profits would seem to indicate a general awareness that claims of trademark infringement and unfair competition are more readily remedied (and compensated) by an infringer’s-profit or lost-royalty measure of damages.

Claims for infringer’s profits were more frequent, with the number of claims totaling thirty-five for trademark and twenty-three for unfair competition. Of the thirty-five trademark claims, damages were awarded in whole or in part in 74.3% of the cases, the average award measuring 53% of the amount claimed. Under the UCPL, 87% of all claims were awarded damages in whole or in part with an average award of 52% of the amount claimed. These statistics are arguably indicative of the positive impact of the “presumption provision” on the injured party’s burden of establishing compensable injury. Although the numbers are not definitive, the healthy percentage of claims recognized and damages awarded under an infringer’s-profit method of calculation seems to indicate a willingness by a fair number of courts to apply the “presumption provision” in keeping with the original intent of easing the plaintiff’s burden of establishing compensable injury.

Finally, thirty-one trademark infringement and eleven unfair competition claims requested damages under a lost-royalty measure of calculation. Roughly 90% of the trademark claims were recognized in whole or in part, with an average award of 39% while 81.9% of the unfair competition claims were recognized with an average award amount of

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123 Id. at 57.
124 Id.
125 Id.
126 Id.
127 See id. at 60.
128 Id. at 57.
129 Id. at 58.
130 Id.
131 See supra Part II.C.1.
While court recognition of both types of claims was quite high at over 50%, the relatively low award rate for trademark claims would lead one to believe that lost-royalty claims, although frequently the smallest in amount, are not necessarily the easiest to establish.\(^{13}\)

The survey’s overview data indicates that the difficulty of establishing compensable injury under an infringer’s-profit theory (i.e. a specified amount of financial profits gained by the infringer) continues to contribute to the prevalence of lost-royalty damage claims for intellectual property infringement claims taken as a whole.\(^{13}\) This, however, as indicated by the above data, is not necessarily the case where only trademark and unfair competition are considered.\(^{13}\) In the past, inaccessibility of an infringer’s financial records did indeed create difficulties for the court in verifying the amount of an infringer’s actual profit.\(^{13}\) However, additional amendments to Article 39 and Article 6 of the Trademark Law and UCPL respectively now allow courts to compel production of relevant documents for damage calculation purposes, provisions which courts appear to be using with more frequency.\(^{13}\)

Thus, as the current survey indicates, damage claims in the realm of trademark and unfair competition can be at least as successful under a theory of infringer’s-profits as under a lost-royalty theory.\(^{13}\) In light of the fact that lost-royalty damages are often set at an amount appropriate to formal, good faith licensing negotiations, such a limited award provides little incentive to refrain from infringing another’s rights where the economic gain is substantial.\(^{14}\) In fact, a lost-royalty measure of damages would seem to encourage infringement, as long as infringement remains the economically rational choice. Thus, even from a purely domestic standpoint, sound policy supports an increased grant by the courts of damage awards pursuant to an infringer’s-profit method of damage calculation.

\(^{13}\) See supra notes 127-134 and accompanying text.

\(^{14}\) See Sakuma, supra note 15, at 60.
The increased willingness of Japanese courts to recognize infringement and award larger damages to right-holders and injured parties is indicative of the courts' awareness of the need for stricter enforcement of intellectual property rights in that country. While the increase in number of infringer's-profit awards as indicated above is encouraging, Japanese courts must now look to the one remaining factor which must be addressed if the Japanese intellectual property framework is to be truly strengthened: deterrence. Japanese courts must recognize the deterrent function of large damage awards and the potential effect that such awards may have on the enforcement of intellectual property rights in Japan. Michelin, discussed below, presents an example of a Japanese court recognizing not only the claim of infringement, but the deterrent effect of a substantial damage award.

B. A New Approach

In Michelin, the Tokyo District Court held the defendant liable for unfair competition under Article 2 Section 1 of the UCPL based on a finding of confusion. The court held that use of the trade-name “K.K. Michelin” by a small Japanese manufacturer (“Defendant”), engaged in the business of making sandwich/lunch foods, caused confusion as to the existence of a close business relationship with the giant French tire manufacturer Michelin and Co. (“Plaintiff”). Under a theory of confusion, the court enjoined use of the trade-name “Michelin” by the Defendant, ordered the removal of the trade-name “K.K. Michelin” from the trade-name registry, and awarded damages under an “infringer's-profit” theory in the amount of ¥60.3 million (roughly $482,000) plus five percent interest. Plaintiff was awarded its claimed amount in its entirety.

This case is of particular interest for two reasons. First, the court recognized unfair competition based on a theory of confusion even though Plaintiff's main area of business and that of Defendant were completely different. Second, the court awarded exceptionally large damages under a


142 See Sakuma, supra note 15.

143 See Michelin, 1638 HANREI JIHÔ 57.

144 Id. at 57.

145 Id. at 57-58.

146 See infra note 161 and accompanying text. Because plaintiff claimed, under Article 2 § 1, that his trade-name was “widely-known” rather than “well-known,” it was required to make a showing of confusion or likelihood of confusion which has generally implied a showing that the parties are engaged in the “same
method of damage calculation based upon the infringer's profit rather than the plaintiff's lost-royalty.

1. **Background**

The Plaintiff, a French corporation founded in 1895, engages in the business of manufacturing high-quality automotive tires. Plaintiff entered the Japanese market in 1964 and has expanded its business each year since. Plaintiff expends millions of dollars annually in the development, supply and advertisement of its product for use in the popular Formula-1 car races, and its name is highly publicized in print and visual media. Plaintiff operates two subsidiaries and a joint venture in Japan, and its product pervades the entire Japanese tire market. Plaintiff also has a history in the map and guide-book market, and its annually published restaurant guide with the "five-star" ranking method is a yearly best-seller.

Defendant commenced operation of a small cafe under the name of "Michelin" in and around 1979. In 1991, the business was incorporated under he trade-name "K.K. Michelin." Since that time, 70% of Defendant's business has consisted of the manufacture and sale of sandwiches, 20% the manufacture and sale of Japanese box lunches, and 10% the operation of a bar under the name of Michelin (spelled out in Japanese characters).

The court in *Michelin* found that the relevant portion of Defendant's trade-name was limited to 'Michelin' since 'K.K.' merely designates a legal entity, and based upon such finding, determined that Defendant's trade-name was identical to that of Plaintiff. Finding, based on the foregoing facts, that "by no later than 1977, Plaintiff's trade-name 'Michelin' was widely-known as an indicia of Plaintiff's products and business, and continues to be so known," and concluding that Defendant was in violation of UCPL

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148 *Id.* at 60.
149 *Id.*
150 *Id.*
151 *Id.*
152 *Id.* at 58.
153 *Id.* at 61.
154 *Id.*
155 *Id.* at 62.
Article 2 Section 1, the court imposed severe sanctions, including the full measure of Defendant’s profits as damages.

2. Analysis

The court’s finding of infringement turned on the possibility of confusion as defined under Article 2 Section 1 of the UCPL. Section 1 states:

For purposes of this law, unfair competition shall mean the following: Use of trade indicia (a name, trade-name, trademark, service-mark, product configuration, packaging etc. that indicates another’s product or business) identical or closely similar to another’s trade indicia widely-known by the public; or the transfer, sale, display for purposes of sale, import or export of a product bearing such trade indicia such that confusion is caused with another’s product or business.

Thus, violation of Article 2 Section 1 will not be found unless the court finds actual cause for confusion as to the origins of a product or a business.

The court’s strict sanctions in Michelin are surprising for a variety of reasons, only two of which are relevant to this paper. First, the finding of confusion, despite the significant difference in the parties’ business areas, can be characterized as an anomaly in the jurisprudence of unfair competition. In determining that Defendant’s use of the name ‘Michelin’ constituted unfair competition, the court reasoned that modern-day businesses engage in multiple areas of commerce, and because Plaintiff’s trade-name is widely-known the court also determined that use of that name

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156 Id. at 61.
157 Id. at 62.
159 See Curci & Takura, supra note 14, at 72.
160 The finding of liability in this case is surprising for various socio-cultural reasons, including the court’s failure to protect Defendant, a small, family-owned business from a dominant multi-national corporation, despite the reality of the situation that seemed to favor Defendant’s argument that no confusion existed and that based on the difference in scope of business, no injury was suffered by Plaintiff on account of Defendant’s business. For discussion of social/cultural aspects of Japanese intellectual property law, see generally Rosen & Usui, supra note 3.
161 Japanese courts generally set strict standards in determining whether the parties are engaged in the same type of business. Parties generally must be engaged in the same area of trade, and the mark at issue must be used with respect to the same type of product before a court will find that the “same type of business” requirement is satisfied. See supra Part II.C.1.a.
by Defendant could cause confusion amongst the public regarding the business relationship between the parties.\textsuperscript{162}

That the court found public confusion or a possibility of confusion between the businesses of Plaintiff, a globally recognized tire manufacturer and Defendant, a small, domestic producer of sandwiches, is astonishing.\textsuperscript{163} Courts in the past have looked at a plaintiff's area of business in as narrow a light as possible when determining whether confusion exists.\textsuperscript{164} The court's recognition in \textit{Michelin} of Plaintiff's activities outside its main business area relating to the manufacture and sale of tires, the area in which it is "widely-known" (its mention of the popularity of Plaintiff's food-guide, for example) is a deviation from the norm.\textsuperscript{165}

In this instance, the court reasoned that since businesses routinely operate in multiple markets, it is not unusual for a corporation, its subsidiaries, or related companies to be engaged in business outside the scope of the corporation's main business.\textsuperscript{166} The court found that even if there is no direct competition between the parties, and even if the parties conduct business in two completely different sectors, use of trade indicia by one party similar to some widely-known indicia of another party generates a high probability of public confusion as to the relationship between the two parties.\textsuperscript{167} The court found a high probability that the public will "wrongly perceive a close business relationship" between the user of the widely-known indicia and the user of indicia similar thereto.\textsuperscript{168}

Further, the court held that such a mistaken belief leads, or could lead, to "tangible and intangible injuries, including the loss of sales and a decrease in marketability."\textsuperscript{169} Indicating that the goal of the UCPL includes the protection of widely-known trade indicia from such injuries, the court held that a correct interpretation of "acts causing confusion" under Article 2, Section 1 of the UCPL,

\textsuperscript{163} See supra note 160 for an explanation of socio-cultural factors that make the court's findings in \textit{Michelin} surprising.
\textsuperscript{164} See generally Daimler Benz Aktiengesellschaft v. Fink, 1326 HANREI JIHÔ 145 (Tokyo High Ct., July 27, 1989). Although this case concerned the registration of a mark as a "defensive mark," the court in \textit{Mercedes} rejected the automobile manufacturer's attempts to prevent registration of the mark "Mercedes-Benz" by a manufacturer of string, rope, and netting.
\textsuperscript{165} See supra note 161 and accompanying text.
\textsuperscript{166} See \textit{Michelin}, 1638 HANREI JIHÔ at 61.
\textsuperscript{167} Id.
\textsuperscript{168} Id.
\textsuperscript{169} Id.
Is not limited to such acts by a user of a trade-indicia similar or identical to a widely-known indicia that cause the public to mistakenly believe the two parties represent the same business entity, but include acts that promote a mistaken belief that the parties have a parent-subsidiary relationship, are affiliated with a group engaged in the same business, or share an otherwise close business relationship.

After concluding that use of the trade-name "K.K. Michelin" by the Defendant gave rise to all of the harms threatened above, the court held the Defendant liable for engaging in an "act causing confusion."¹⁷⁰

The second point of interest, is the even more surprising award of the Defendant's profit in its entirety as claimed by the Plaintiff. Under Article 5, Section 2 of the UCPL, the court found that damage to the Plaintiff was appropriately calculated at $482,000 plus five percent interest.¹⁷¹ In light of the modest size of Defendant's business, particularly with respect to Plaintiff's size, an award of damages in the amount of lost-royalties would have been more in line with damages awarded by Japanese courts under past similar circumstances.¹⁷²

IV. A SHIFT IN JURISPRUDENCE

In recent years, the call for stronger protection of intellectual property rights in Japan has grown in intensity.¹⁷³ Recent activities of the Japanese government including the amendment of the Patent Law damages provision and continuing discussion of possible amendments to the current damage provisions of other intellectual property laws, indicates an awareness of the need for stronger enforcement of intellectual property rights.¹⁷⁴ While "fine-tuning" the various laws by easing the plaintiff's burdens of proof of injury and causation, or providing for easier access to defendant's documents is useful in that such measures allow for more definite findings of infringement,¹⁷⁵ the stricter enforcement of intellectual property rights does

¹⁷⁰ Id.
¹⁷¹ Id. at 62.
¹⁷² Even where damages have been awarded under a theory of infringer's profits, the average award is approximately 50% of the amount claimed. In unfair competition cases approximately 55% of the claims for lost royalties were recognized with average awards of 80% of the amount claimed. See supra Part III.A.
¹⁷³ See generally COUNCIL ON INDUSTRIAL PROPERTY RIGHTS, supra note 11.
¹⁷⁴ Id.
¹⁷⁵ Id. The Council has proposed a series of amendments to the Patent Law that could have a significant impact on the application of damage provisions under other intellectual property laws.
not necessarily depend on the adoption of new amendments.\textsuperscript{176} In fact, as \textit{Michelin} clearly indicates, the willingness of courts to recognize infringement through a more expansive reading of the existing damages provisions and to grant larger damage awards can effectuate stronger intellectual property protection in Japan.

In \textit{Michelin}, the court’s practical analysis eased the plaintiff’s burden of establishing that the parties engaged in the “same type of business” and facilitated the application of an infringer’s profit measure of damages. \textit{Michelin} indicates a shift in Japanese intellectual property jurisprudence that allows for both a finding of infringement liability with greater ease than in the past and an award of damages in an amount likely to deter repetition of similar conduct. In the context of a need for stronger protection of intellectual property rights, \textit{Michelin} presents cause for optimism.

Both in terms of liability and damages, the court took a position it has been reluctant to take in the past; it recognized infringement where the nature of the businesses involved were completely distinct, and granted a large damage award under an infringer’s-profit measure of damages.\textsuperscript{177} The court’s willingness to extend source confusion to a mistaken belief that the parties involved share an “otherwise close business relationship” rather than limiting that confusion to the more narrow mistaken belief that the parties represent the “same business entity,” indicates a broadening of the court’s interpretation of confusion that constitutes unfair trade.\textsuperscript{178}

Further, the court’s recognition of Plaintiff’s claim for damages under a theory of infringer’s profits rather than lost-royalties, particularly in the substantial amount claimed, may reflect the court’s recognition of the deterrent effect of substantial damages. An increase in recognition of claims under the infringer’s profit theory will likely lead to an increase in the average amount of damages awarded.\textsuperscript{179} This change indicates a shift in the

\textsuperscript{176} In an analysis of the recent patent infringement case, \textit{Smithkline & Beecham French Lab. Ltd. v. Fujimoto Seiyaku} (Tokyo Dist. Ct., Oct. 12, 1998) (unreported), in which the Tokyo District Court awarded approximately $23.5 million in infringer’s profit damages, Professor Takenaka states: “\textit{Smithkline} clearly indicates that courts can handle appropriate patent infringement damages issues without extensive revisions of patent statues proposed by the JPO.” Toshiko Takenaka, \textit{Big Change in Measurement for Japanese Patent Infringement Damages?}, CASRIP NEWSL., Autumn 1998, at 7, 9. Although the Patent Law has since been amended to allow for a presumption of lost profits as well as access to an opponent’s documents, the same changes have yet to occur in any of the other sectors of intellectual property. While such changes are undoubtedly beneficial in that successful prosecution of patent infringements will be made substantially easier, the author believes that the same or similar effect can be attained in the law of trademark without necessarily effectuating a change of the law.

\textsuperscript{177} See supra notes 161-172 and accompanying text.


\textsuperscript{179} See supra Part III.A.
court's policy considerations with respect to the protection of trademark and other intellectual property rights. If Michelin indeed is an example of the Japanese courts' recognition of the valuable deterrent effect of large damages awarded under a theory of infringer's profits, it would signal a welcomed step in the protection granted individual intellectual property rights in Japan.

V. CONCLUSION

The function of intellectual property laws in Japan has traditionally been greatly affected by the social framework in which those laws operate. Courts have been slow to recognize infringement and extremely reluctant to award damages beyond the minimal amount of lost royalty payments. Fortunately, the situation appears to be changing. Michelin reflects a positive change in the Japanese court's willingness to recognize infringement and to provide an adequate remedy; it indicates the court's reorientation towards a broader reading of relevant statutes to find infringement liability with greater ease and imposition of larger damages carrying a deterrent effect.

Although the changes necessary to realize true enforcement of intellectual property rights in Japan will take time, recent cases, such as Michelin, indicate that the Japanese judiciary is not unaware of the need for such change in light of the growing prevalence of intellectual property conflicts. Japanese courts must continue to give a broad construction to the damages provisions of intellectual property laws in order to meet the needs of an economic system based increasingly upon intellectual property rights. Only when the expansive reading of the damages provision by the court in Michelin becomes the norm in Japanese intellectual property jurisprudence will Japan have a system through which intellectual property rights will truly be enforced.

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180 See generally Rosen & Usui, supra note 3, and Takenaka, supra note 7.
181 See supra Part II.C.2.
182 Both the expansive interpretation applied in the determination of damages in Michelin and the recent amendments to the Patent Law indicate that both the Japanese legislature and its courts are working towards the greater protection of intellectual property rights.