Patent Right	Date	September 18, 2019	Court	Intellectual Property High Court, First Division
	Case number	2019(Ne)10032		
- A case in which the court has found that there is an implicit agreement to the effect that the licensee shall have an obligation to implement the invention in an agreement to the effect that an exclusive license shall be granted for a patent right, and determined that there is no breach of the obligation to implement the invention under the fact situation that the court has found.				

Case type: Compensation

Result: Appeal dismissed

References: Article 77 of the Patent Act, Article 415 of Civil Code

Related rights, etc.: Patent No. 4686669

Judgment of the prior instance; Osaka District Court 2017(Wa)1752, rendered on Feb. 28, 2019

Summary of the Judgment

1 This case is a case in which the Appellant, who owns a patent right (the Patent right) according to the invention titled "METHOD FOR PRODUCING DRIED SMALL FISH USING YOUNG FISH AS RAW MATERIAL, AND PRODUCT OBTAINED BY THE METHOD" (the Invention), has claimed a payment of an agreed compensation for damage of 10,000,000 yen under Article 16, paragraph (2) of the agreement and delay damages thereof on the grounds of a right to demand compensation for damage due to default, stating that Appellee, who is a counter-party of the agreement to whom an exclusive license shall be granted for the Patent right (the Agreement), did not implement the patent invention, which was mandatory for an exclusive licensee on the Agreement.

Court of prior instance has dismissed the Appellant's claim, stating that Appellee implements the Invention by producing and selling the Defendant's product.

Accordingly, Appellant has filed an appeal challenging the ruling.

2 This judgment has dismissed the appeal in summary, ruling as in the following.

(1) Regarding the Appellee's obligation to implement the Invention

It is recognized that Appellant has executed the Agreement with Appellee to the effect that (A) Appellant shall grant an exclusive license of the Patent to Appellee (Article 1), (B) Appellee shall pay a running royalty to Appellant in an amount that multiplies a sales volume of implemented products by a proportion of 2 to 5% at the

end of every month as compensation for the grant of the license (Article 3), (C) Appellee shall send to Appellant a report of implementation that describes the form of sold products, unit price, sales volume, sale destination, total sales amount, royalty, and consumption tax at the end of every month and, in the absence of sales results during the period, also send a report of that effect (Article 4), (D) Appellant may cancel the Agreement without any notice when Appellee breaches the Agreement (Article 15, paragraph (1)) and (E), an amount of the damage according to the compensation for damage inflicted by Appellee's breach of the Agreement shall be estimated as 10,000,000 yen (Article 16, paragraph (2)).

Appellee obtains a position capable of obtaining an exclusive license of the Patent under the Agreement and exclusively implementing the Invention. On the other hand, Appellant should bear the cost of patent maintenance, regardless of the fact that Appellant can neither implement the Invention by itself nor grant a license to a person other than Appellee to obtain a royalty. Appellant could not at all receive a payment of royalty unless Appellee could sell products to customers by implementing the Invention. In view of such legal status of the respective parties, it is equitable to recognize that there is an implicit agreement in the Agreement to the effect that Appellee who was given a license of the Patent should have an obligation to implement the Patent. Further, Appellee does not object to the fact that Appellee has an obligation to implement the Invention.

Of course, such construction does not unambiguously define the specifics of the obligation of implementation; in other words, what should be done by Appellee to perform an obligation, or what kind of effects are provided for an imperfect performance.

Consequently, it is reasonable to determine the propriety of a claim for compensation for damage due to the breach of the Agreement in comprehensively considering Appellee's attitude according to the production and sales of the implemented products under the specific circumstances in addition to the purport of the Agreement.

(2) Whether or not breach of the obligation of implementation is present

- It cannot be recognized in this case that the production process of Defendant's product does not comply with the production process of the Invention.

- It cannot be seen from the fact situation of the case that the production and sales of the Defendant's product were not sufficient as a performance of the obligation of implementation.

Judgment rendered on September 18, 2019
2019 (Ne) 10032 Appeal case of seeking compensation
(Court of Prior Instance: Osaka District Court 2017 (Wa) 1752)
Date of conclusion of oral argument: August 14, 2019

Judgment

Appellant: Kabushiki Kaisha Grand Palais Côte-d'Or

Appellee: Kabushiki Kaisha Nakata Suisan

Main text

1. The present appeal case shall be dismissed.
2. The court costs shall be borne by Appellant.

Facts and reasons

No. 1 Gist of the appeal

1. The judgment of prior instance shall be rescinded.
2. Appellee shall pay to Appellant a sum of 10,000,000 yen and the money accruing therefrom at an annual interest rate of 6% from October 7, 2016 until full payment.

No. 2 Outline of the case (Unless otherwise specified, the abbreviations used in the judgment of prior instance shall be used herein.)

1. In the present case, the Appellant, who owns a patent right (the Patent right) according to the invention titled "METHOD FOR PRODUCING DRIED SMALL FISH USING YOUNG FISH AS RAW MATERIAL, AND PRODUCT OBTAINED BY THE METHOD" (the Invention), stated that Appellee, who is a counter-party of the agreement to whom an exclusive license shall be granted for the Patent right (the Agreement), did not implement the patent invention, which was mandatory for an exclusive licensee on the Agreement, and failed to send a report concerning the implementation, thereby claiming payment of an agreed compensation for damage of 10,000,000 yen under Article 16, paragraph (2) of the Agreement and delay damages thereof arising at an annual interest rate of 6%, which is the statutory rate of interest for commercial matters, from October 7, 2016, which is the day following the date of

request for the payment, until full payment, on the grounds of a right to demand compensation for damage due to default.

The court of prior instance has dismissed the Appellant's claim, stating that Appellee implemented the Invention and determining there are no grounds for Appellant's claim for compensation due to default of the obligation to send a report.

Accordingly, Appellant has filed an appeal challenging the ruling.

2. The findings are as indicated in No. 2-2 of "Facts and reasons" in the judgment of prior instance and are cited.

3. Issues

(1) Whether or not breach of the obligation of implementation is present

A. Whether or not the production process of Defendant's product fails to comply with the production process of the Invention (Issue 1)

B. Whether or not the production and sales of the Defendant's product were insufficient as a performance of the obligation of implementation (Issue 2)

(2) Whether or not breach of the obligation to send a report is present (Issue 3)

(3) Whether or not damage was inflicted, and the amount thereof (Issue 4)

(omitted)

No. 4 Judgment of the court

The court agrees with the court of prior instance that there was no default of the obligation for implementation on the part of Appellee, and that, while there was default of the obligation to send a report on the part of Appellee, Appellant suffered no damage as a result, and thus the court determines that there are no grounds for Appellant's claim for compensation due to default of obligation.

The court rules as follows.

1. Regarding the Appellee's obligation to implement the Invention

As indicated above (No. 2-2 (3) of "Facts and reasons" in the judgment of prior instance having been cited), it is recognized that, on March 28, 2014, Appellant concluded the Agreement with Appellee to the effect that (A) Appellant shall grant an exclusive license of the Patent to Appellee (Article 1), (B) Appellee shall pay a running royalty to Appellant in an amount that multiplies a sales volume of implemented products by a proportion of 2 to 5% at the end of every month as compensation for the grant of the license (Article 3), (C) Appellee shall send to Appellant a report of implementation that describes the form of sold products, unit price, sales volume, sale destination, total sales amount, royalty, and

consumption tax at the end of every month and, in the absence of sales results during the period, also send a report to that effect (Article 4), (D) Appellant may cancel the Agreement without any notice in the event Appellee breaches the Agreement (Article 15, paragraph (1)) and (E), an amount of the damage according to the compensation for damage inflicted by Appellee's breach of the Agreement shall be estimated as 10,000,000 yen (Article 16, paragraph (2)).

Appellee obtains a position capable of obtaining an exclusive license of the Patent under the Agreement and exclusively implementing the Invention. On the other hand, Appellant should bear the cost of patent maintenance, regardless of the fact that Appellant can neither implement the invention by itself nor grant a license to a person other than Appellee to obtain a royalty. Appellant could not at all receive a payment of royalty unless Appellee could sell products to customers by implementing the Invention. In view of such legal status of the respective parties, it is equitable to recognize that there is an implicit agreement in the Agreement to the effect that Appellee, who was given a license of the Patent, should have an obligation to implement the Patent. Further, Appellee does not object to the fact that Appellee has an obligation to implement the Invention.

Of course, such construction does not unambiguously define the specifics of the obligation for implementation; in other words, what should be done by Appellee to perform an obligation, or what kind of effects are provided for an imperfect performance.

Consequently, it is reasonable to determine the propriety of a claim for compensation for damage due to the breach of the Agreement by comprehensively considering Appellee's attitude according to the production and sales of the implemented products under the specific circumstances in addition to the purport of the Agreement.

2. Whether or not breach of the obligation of implementation is present

(1) Whether or not the production process of Defendant's product fails to comply with the production process of the Invention (Issue 1)

A. Appellant argues that since the production process of Defendant's product includes the process in which the young fish is left to cool off after being boiled, it does not comply with the production process of the Invention, and that consequently, Appellee failed to implement the patent invention, which was mandatory for an exclusive licensee on the Agreement.

However, it cannot be acknowledged in this case that the production

process of Defendant's product fails to comply with the production process of the Invention.

The reason for the above is as indicated in No. 4-1 of "Facts and reasons" in the judgment of prior instance (from line 19 on page 12 to line 20 on page 22 in the judgment of prior instance) and is cited, in addition to the corrections as indicated below in B and the judgment of the court concerning the supplementary assertion as indicated below in C.

B. Corrections to the judgment of prior instance

In lines 15 and 20 on page 22 in the judgment of prior instance, change "Patent" to "Invention" in each instance.

C. Judgment of the court concerning the supplementary assertion

Concerning the propriety of including the process of leaving the fish to cool off in the production process of Defendant's product, Appellant argues that, while it is true that the scope of claims and the Description for the Patent only indicate that the young fish should go through the process of aging under ice-cooling after being boiled, and do not indicate anything to prohibit the inclusion of the process of leaving the fish to cool off, it does not naturally mean that the inclusion of the process to "cool off" is permissible.

Furthermore, Appellant argues that, while the Invention is aimed at making it possible to sustain a umami taste of whitebait and to preserve the same for long periods, the amount of inosinic acid and water contained in Defendant's product is even less than the amount of the same contained in the product which was manufactured more than two years ago by the production method for the Invention. Accordingly, Appellant argues that, since the umami taste of inosinic acid is not sustained in Defendant's product, it should be recognized that the production process for Defendant's product does not comply with the production process for the Invention, and that this fact constitutes violation of Appellee's obligation of implementation.

Based on the above, Appellant submits, as the evidence indicating the amount of inosinic acid and water contained in Defendant's product, the following: Test Result dated February 1, 2018 and prepared by the Director of Ehime Institute of Industrial Technology (No. 252-1 from among the tests conducted by the Institute in 2017; Exhibit Ko 18); Test Result dated March 8, 2018 and prepared by the Director of Ehime Institute of Industrial

Technology (No. 286 from among the tests conducted by the Institute in 2017; Exhibit Ko 24); and photographs of Defendant's product (Exhibit Ko 21).

However, while it is explained that the photographs of Defendant's product according to Exhibit Ko 21 show the specimens used in the aforementioned test results, the best-before date for the aforementioned Defendant's product is November 19, 2016 (Exhibits Ko 21, 24), and at least one year and three months had elapsed since then by the time the tests were requested on March 5, 2018. It is believed that the conditions in which the aforementioned Defendant's product was stored during the period up to the aforementioned tests constitute a factor that would have an impact on test results, but there does not seem to be any objective evidence that clarifies the conditions in which Defendant's product was stored. Rather, the results of the above tests suggest, from the fact that the value of content of inosinic acid is as low as 41 (Exhibit Ko 18) and the fact that the results of the test that was conducted by Appellee for comparison of the whitebait that was cooled off and the whitebait that was frozen and then thawed repeatedly showed the same tendency in the content of inosinic acid (Exhibit Otsu 69), that the conditions in which the aforementioned Defendant's product was stored involved a similar manner of freezing and thawing.

Consequently, there is doubt as to whether or not it can be said that the aforementioned test results appropriately show the conditions of Defendant's product, and there is no appropriate evidence that sufficiently erases this doubt.

Accordingly, the above claim made by Appellant is groundless.

(2) Whether or not the production and sales of the Defendant's product were insufficient as a performance of the obligation of implementation (Issue 2)

A. Appellant argues that, by stating that the production of Defendant's product by Appellee did not take place immediately after the conclusion of the Agreement and that the amount of the royalty paid afterwards was small, the production and sales of the Defendant's product were not sufficient as a performance of the obligation of implementation, and that, consequently, Appellee failed to implement the Invention, which was mandatory for an exclusive licensee in the Agreement.

However, in light of the fact situation of this case, the production and

sales of the Defendant's product cannot be viewed as insufficient as a performance of the obligation of implementation.

The reasons for the above are as indicated in No. 4-2 (1) of "Facts and reasons" in the judgment of prior instance (from line 25 on page 22 to line 18 on page 28 in the judgment of prior instance) with regard to the fact situation that provides basis for the judgment, in addition to the corrections indicated below in B, and as indicated in No. 4-2 (3) of the "Facts and reasons" in the judgment of prior instance (from the last line on page 29 to line 14 on page 33 in the judgment of prior instance) with regard to the judgment, and are cited.

B. Corrections to the judgment of prior instance

(A) In lines 7 and 19 on page 23, in line 24 on page 24, in line 23 on page 26, in lines 1, 14, 18, and 26 on page 30, in lines 24 and 25 on page 31, and in lines 1, 2, and 7 on page 32, change "Patent" to "Invention" in each instance.

(B) In line 23 on page 26 and in line 2 on page 27, change the kanji character that is used to indicate "as before" and "as contracted" to hiragana characters, respectively.

(C) In the last line on page 29, change "(3)" to "(2)".

(D) Change the part that starts with "based on the perspective described in above (2)" in the first line on page 30 and ends with "shall be considered" in the second line on the same page to the following: "based on the perspective described in the above 1, whether or not the production and sales of the Defendant's product were insufficient as a performance of the obligation of implementation shall be considered".

(E) In line 18 on the same page, change "whether or not Defendant ... as per the ruling of the above (2)" to "and furthermore, whether or not Appellee".

3. Whether or not breach of the obligation to send a report is present (Issue 3) and whether or not damage was inflicted (Issue 4)

(1) While it is recognized that, under the fact situation of this case, there is default of the obligation to send a report under the Agreement on the part of Appellee, it cannot be acknowledged that Appellant suffered any damage as a result.

(2) The reason for the above is as indicated in No. 4-3 of "Facts and reasons" in the judgment of prior instance (from line 18 on page 33 to line 14 on page 36 in the judgment of prior instance) and is cited, in addition to the corrections indicated

below in (3).

(3) Corrections to the judgment of prior instance

A. In lines 7, 9, and 10 on page 35 in the judgment of prior instance, change "Patent" to "Invention" in each instance.

B. Change the part from line 11 to line 14 on page 36 as follows:

"Incidentally, even if we were to consider damage according to the general principles for compensation due to default, instead of considering damage as agreed in the amount of damages as stipulated in Article 16, paragraph (2) of the Agreement, there are no sufficient grounds to recognize that any damage resulted from the violation of the obligation to send a report in the present case."

4. Conclusion

As described above, Appellant's claim for compensation is groundless.

Therefore, the judgment of prior instance dismissing Appellant's claim is reasonable, and the appeal of the present case shall be dismissed for being groundless, and the judgment is rendered as in the main text.

Intellectual Property High Court, First Division

Presiding Judge	TAKABE Makiko
Judge	KOBAYASHI Yasuhiko
Judge	SEKINE Sumiko