Plant Variety Protection and Seed Act	Date	March 6, 2019	Court	Intellectual Property High Court, Third Division
	Case number	2018 (Ne) 10053 2018 (Ne) 10072		
- A case in which, in regards to a demand for compensation, etc. based on a breeder's right of shiitake mushrooms, the court held that the exercising of the right against production or transferring or the like of harvested material shall be restricted only to the cases where the holder of the right has not had reasonable opportunity to exercise his/her right at the stage of propagating material, thereby partially restricting the exercising of the right.				

Case type: Injunction, etc.

Result: Partial modification of the prior instance judgment, incidental appeal dismissed

References: Article 2, paragraph (5), item (ii) of the Plant Variety Protection and Seed Act

Number of related rights, etc.: Variety Registration No. 7219

Summary of the Judgment

1. In the present case, the Appellee, who has a breeder's right of shiitake mushrooms (Breeder's Right), and whose variety had been registered pursuant to the Plant Variety Protection and Seed Act, argued that the Appellant has engaged in production and transfer and the like of propagating material for shiitake mushrooms as well as of harvested material thereof since August 2011, if not earlier, and that these acts infringe on the Breeder's Right, thereby demanding against the Appellant for [i] an injunction against production and transfer and the like of the aforementioned propagating material as well as of harvested material thereof pursuant to Article 33, paragraph (1) of the Act, [ii] destruction of the aforementioned propagating material and the like pursuant to paragraph (2) of the same Article, [iii] publication of an apology ad in newspapers pursuant to Article 44 of the Act, and [iv] payment of compensation based on a joint act of tort.

2. In the prior instance (Tokyo District Court 2014 (Wa) 27733; judgment rendered on June 8, 2018), the court acknowledged that there was an act of tort (infringement of the Breeder's Right) in regards to the Appellant's act (transfer of harvested material) after being warned by the Appellee of infringement, and partially approved the claim for damage and partially approved the claims for an injunction and destruction.

   In response, the Appellant, who was dissatisfied with the part of the judgment

in which the Appellant lost, appealed the court ruling, and the Appellee filed an incidental appeal, demanding for an increase in the amount of damages to be compensated (approved amount), and for issue of an order for publication of an apology ad, which had been dismissed in the prior instance.

3. In this court, the dispute mostly concerned whether or not it is possible to exercise the right for harvested material pursuant to Article 2, paragraph (5), item (ii) of the Plant Variety Protection and Seed Act. While the judgment of prior instance acknowledged that the right may be exercised entirely in regards to harvested material, the judgment of this court determined as per the summary below, partially restricting the scope within which the right may be exercised. In addition, based on the foregoing, the judgment of this court further reduced the amount of compensation from the amount approved in the judgment in prior instance, and as for the claims for an injunction and destruction as well as the claim for publication of an apology ad, the court held that they shall be dismissed entirely.

(1) The Plant Variety Protection and Seed Act stipulates that a holder of a breeder's right shall have an exclusive right to exploit, in the course of business, the variety which is registered (registered variety) and varieties which, by the expressions of the characteristics, are not clearly distinguishable from the registered variety (Article 20, paragraph (1) of the Act). The Act further stipulates that the "exploitation" therein refers to the act of production, transferring, and the like of the "propagating material of the variety" (Article 2, paragraph (5), item (ii) of the Act), and that, in regards to the "harvested material obtained through the use of the propagating material [of the variety]" (item (ii) of the same paragraph) and the "processed products of the variety" (item (iii) of the same paragraph), the holder of the breeder's right can extend the breeder's right only to the cases where the holder of the breeder's right "has not had reasonable opportunity to exercise his/her right" against the acts performed by producers and the like of the propagating material (in the case of exploitation of processed products, including the acts performed by producers and the like of the harvested material), thereby providing for principles for gradual exercising of rights (the provision in parentheses in item (ii) of the same paragraph, the provision in parentheses in item (iii) of the same paragraph). Next, it is interpreted that, in view of the provisions of Article 14 of the International Convention for the Protection of New Varieties of Plants (UPOV Treaty) which became the foundation of the provisions of the Plant

Variety Protection and Seed Act, the "reasonable opportunity to exercise his/her right" as used herein refers to the case in which the holder of the breeder's right and the like are aware that a third party is exploiting (including unauthorized propagation) the propagating material or harvested material of the registered variety and that it is legally possible to exercise the breeder's right against the third party through measures such as conclusion of a license agreement.

Stated differently, the acts performed by the Appellant concerning the Defendant's Mushrooms are merely the sale (transferring) of harvested material, or the Defendant's Mushrooms, so that whether or not the Appellee is able to extend the Breeder's Right to such acts by the Appellant depends on whether or not the Appellee had the reasonable opportunity to exercise the Breeder's Right against acts which involve the propagating material of the Defendant's Mushrooms.

(2) Regarding this point, the process of transactions involving the Defendant's Mushrooms, from an objective point of view, is as follows.

A. Dealers in China produced, in China, the propagating material (mushroom beds) which is within the scope of right of the Breeder's Right.

B. An intermediary in Japan imported the propagating material (mushroom beds) of A into Japan and sold (transferred) it to the Appellant's first party.

C. The Appellant's first party used the propagating material (mushroom beds) and produced (cultivated) the harvested material, or the Defendant's Mushrooms.

D. The Appellant purchased the Defendant's Mushrooms of C and sold (transferred) them to retailers (by packaging them with other purchased goods).

Stated differently, it is interpreted that the "import" according to Article 2, paragraph (5), item (i) of the Act refers to the act of bringing the propagating material, which is outside Japan, into Japan. Accordingly, it is acknowledged that, of the acts carried out by the intermediary of the above B, the act of importing the propagating material of the above A into Japan precisely falls under the "import" as stipulated in the same item, and the act of selling (transferring) the same propagating material to the Appellant's first party falls under the "transferring" as stipulated in the same item.

(3) Next, whether or not the Appellee had the reasonable opportunity to exercise the Breeder's Right shall be considered below.

On May 14, 2012, the Appellee sent a content-certified mail (Notice) informing the Appellant that, as a result of the comparative cultivation test taken for comparison with the Variety, it is highly likely that the Defendant's Mushrooms are in infringement of the Breeder's Right. In response, in a letter which was received by the Appellee on June 4 of the same year (Written Answer), in which the Appellant wrote, among other things, that [i] all of the Defendant's Mushrooms are purchased from the Appellant's first party, [ii] some of the shiitake mushrooms which are delivered by the Appellant's first party to the Appellant were purchased from producers in Japan while others were produced using the mushroom beds personally obtained by the Appellant's first party, [iii] in regards to the production of the latter case, the Appellant's first party produces shiitake mushrooms using the mushroom beds purchased from mushroom bed producers in China through the aforementioned intermediary, a trading company. As such, it is acknowledged that the Written Response specifies the place in China from which mushroom beds were purchased as well as the name and address of the place from which strains were purchased, in addition to the name and address (location of head office) of the aforementioned intermediary.

In that case, the Appellee has obtained, by having already carried out a comparative cultivation test at the time of sending the Notice, objective evidence to the effect that the Defendant's Mushrooms are highly likely to be in infringement of the Breeder's Right. Furthermore, with the help of the Written Response, the Appellee has obtained the fact that an importer in Japan (aforementioned intermediary) was importing and selling mushroom beds, or the propagating material, and has obtained sufficient information to specifically identify the importer. As such, it can be said that, consequently, the fact about exploitation (including unauthorized propagation) by a third party (aforementioned intermediary) of the propagating material for the Variety came to be known, and at least in regards to the mushroom beds having been imported to be sold (transferred) in Japan after the arrival of the Written Response, it is reasonable to consider that it became legally possible to exercise the Breeder's Right by, for example, concluding a license agreement with the third party (aforementioned intermediary).

(4) Based on the above, at least in regards to the shiitake mushroom beds which were sold (transferred) in Japan through the aforementioned intermediary on or after June 4, 2012, which is when the Written Response was

received, it cannot be said that the Appellee did not have the reasonable opportunity to exercise its right at the stage of the propagating material (against the aforementioned intermediary), and thus, of the sale of the Defendant's Mushrooms by the Appellant, the Appellee cannot exercise its right, pursuant to Article 2, paragraph (5), item (ii) of the Act, against the sale of the shiitake mushrooms which are the harvested material obtained from the shiitake mushroom beds sold (transferred) in Japan on or after the same date.

Next, in regards to the Variety, while the number of days from the time the producers received the shiitake mushroom beds until completion of cultivation/growth and destruction of the mushroom beds (producers' cultivation period) is said to be 230 days (80 days for cultivation, 150 days for growth), it can be said that the same is true of the Defendant's Mushrooms whose varieties cannot be clearly distinguished from the Variety in terms of characteristics, and thus it is reasonably presumed that, at least in regards to the Defendant's Mushrooms (harvested material) sold after February 2013, which is after the lapse of 230 days from June 4, 2012, they were entirely obtained from the mushroom beds (propagating material against which the right can be exercised) sold (transferred) in Japan on or after June 4, 2012. Also, from September 2012 (if not earlier), by which time the cultivation period for mushroom beds (80 days) had lapsed since June 4, 2012, the shiitake mushrooms from the mushroom beds purchased after June 4, 2012 will have been harvested as well. Accordingly, the Defendant's Mushrooms sold after September 2012 include the shiitake mushrooms originating from the mushroom beds purchased before June 3, 2012, as well as the shiitake mushrooms originating from the mushroom beds purchased on or after the 4th of the same month, and thus it is reasonable to presume that the percentage of the former and that of the latter are each 1/2.

Therefore, it is reasonable to acknowledge that the Appellee cannot exercise its right against the Appellant because half the volume of the Defendant's Mushrooms sold between September 2012 and January 2013, and the Defendant's Mushrooms sold after February 2013 do not fulfill the requirement of the provision in parenthesis in item (ii), paragraph (5), Article 2 of the Act, so that the act of exploitation according to the operative part of the same item is not applicable.

Judgment rendered on March 6, 2019
2018 (Ne) 10053, 2018 (Ne) 10072 Appeal Case of Seeking Injunction against Infringement of Breeder's Right, Case of Incidental Appeal (Court of Prior Instance: Tokyo District Court 2014 (Wa) 27733)
Date of conclusion of oral argument: December 18, 2018

Judgment

Appellant, and Appellee of Incidental Appeal (Defendant in the first instance)
Kawatsuru Co., Ltd.
(hereinafter referred to as "Appellant")

Appellee, and Appellant of Incidental Appeal (Plaintiff in the first instance)
Mori & Company
(hereinafter referred to as "Appellee")

Main text

1. Based on the appeal of the present case, Nos. 1 to 4 and No. 6 of the main text of the judgment in prior instance shall be modified as follows.
   (1) The Appellant shall pay to the Appellee money in the amount of 8,916,375 yen as well as money accruing therefrom at an annual interest rate of 5% for the period starting from November 26, 2014 up to the date when the payment is completed.
   (2) Other claims made by the Appellee against the Appellant shall be dismissed entirely.
2. The incidental appeal of the present case shall be dismissed.
3. The part of court costs arising in connection with this court and the part arising between the Appellant and the Appellee in prior instance shall be divided by 100, and 3 out of the 100 shall be borne by the Appellant, with the remainder to be borne by the Appellee.
4. This judgment may be provisionally executed in regards to Paragraph 1 (1) only.

Facts and reasons

No. 1 Gist of the appeal

1. Appeal made by the Appellant

(1) Of the judgment in prior instance, the part in which the Appellant lost shall be reversed.

(2) The Appellee's claims shall be dismissed entirely.

(3) The court costs for the first and second instances shall be borne by the Appellee.

2. Incidental Appeal made by the Appellee

(1) Nos. 4, 6, and 7 of the main text of the judgment in prior instance shall be modified as follows.

(2) The Appellant shall pay to the Appellee money in the amount of 250,636,734 yen as well as money accruing therefrom at an annual interest rate of 5% for the period starting from November 26, 2014 up to a date when the payment is completed.

(3) The Appellant shall publish an article in each of The Japan Agricultural News (whole nation edition) and Zenkoku Kinoko Shimbun [National Newspaper on Mushrooms] (whole nation edition), as per the attached Apology Ad, consisting of two vertical columns (at least 67 mm from top to bottom) with the horizontal length being at least one-half (at least 192 mm from left to right) of the vertical length, in a font that is at least 10-point for the subtitle and at least 8-point for the main text.

(4) The court costs for the first and second instances shall be borne by the Appellee.

(5) Declaration of provisional execution

No. 2 Outline of the case (in principle, the abbreviations used hereinafter shall follow the abbreviations used in the judgment in prior instance)

1. In the present case, the Appellee, who has the breeder's right of shiitake mushrooms (Registration No. 7219; hereinafter referred to as "Breeder's Right"), whose variety was registered pursuant to the Plant Variety Protection and Seed Act, argued that the Appellant, Kabushiki Kaisha Noken Kanzai (Kawatsuru Noken), and the bankrupt Kabushiki Kaisha Nagano Kanzai (AGLINK Nagano) have engaged in the production and transfer and the like of propagating material for shiitake mushrooms as well as of harvested material thereof since August 2011, if not earlier, and that these acts infringe on the Breeder's Right, thereby demanding against the Appellant for [i] an injunction against the production and transfer and the like of the aforementioned propagating material as well as of harvested material thereof pursuant to Article 33, paragraph (1) of the Act, [ii] destruction of the aforementioned propagating material and the like pursuant to

paragraph (2) of the same Article, [iii] publication of an apology ad in newspapers pursuant to Article 44 of the Act, and [iv] payment of a sum of 250,636,734 yen in damage for a joint act of tort as well as the delinquency charge accruing therefrom at an annual interest rate of 5%, as prescribed by the Civil Code, for the period starting from November 26, 2014, which is the day immediately following the act of tort (day immediately following the date of service of this complaint) up to a date when the payment is completed, in addition to demanding against the bankruptcy administrator of AGLINK Nagano for the confirmation that the Appellee has a bankruptcy claim against AGLINK Nagano in the amount of 250,636,734 yen, which is the principal of the damages, as well as the delinquency charge accruing therefrom in the amount of 26,196,688 yen.

In the prior instance, the court acknowledged that there was an act of tort by the Appellant and partially approved the claims made against the Appellant. In regards to AGLINK Nagano, the court did not acknowledge the establishment of a joint act of tort with the Appellant, and confirmed that the Appellee's bankruptcy claim against AGLINK Nagano shall be zero (0) yen.

In response, the Appellant, who was dissatisfied with the part of the judgment in which the Appellant lost, appealed the court ruling, and the Appellee filed an incidental appeal, demanding for increase in the amount of damages to be compensated by the Appellant, and for issue of an order for publication of an apology ad, which had been dismissed.

Accordingly, the subject of examination by this court concerns only whether or not the Appellee's claims against the Appellant are justifiable (the Appellee's claim against the bankruptcy administrator of AGLINK Nagano shall not be examined by this court).

(omitted)

No. 4 Judgment of this court

1. Acts by the Appellant and Kawatsuru Noken (Issue (1))

The acts performed by the Appellant and Kawatsuru Noken concerning the Defendant's shiitake mushrooms are as described in No. 4, 1, (1) to (4) under "Facts and reasons" (line 13 on page 27 to line 26 on page 28 of the judgment in prior instance) of the judgment in prior instance, to be cited (other than the parts concerning AGLINK Nagano), except for the parts amended as follows.

(1) On line 13 on page 27 of the judgment in prior instance, "Kawatsuru Noken

imported shiitake mushroom beds" shall be modified to "Kawatsuru Noken purchased shiitake mushroom beds from SSIT."

(2) On lines 18 to 19 on page 28 of the judgment in prior instance, "[i] Kawatsuru Noken imported shiitake mushroom beds" shall be modified to "[i] Kawatsuru Noken purchased shiitake mushroom beds from SSIT."

2. Comparison between the Variety and the Defendant's Mushrooms (Issue (2))

The fact that it is acknowledged that the Defendant's Mushrooms are of varieties that cannot be clearly distinguished from the Variety in terms of characteristics is as described in No. 4, 2 under "Facts and reasons" (lines 1 to 14 on page 29 of the judgment in prior instance), to be cited.

3. Scope of the breeder's right (Issue (3))

The fact that the Defendant's Mushrooms belong to the scope of the breeder's right of the Variety is as described in No. 4, 3, (1) and (2) under "Facts and reasons" (from line 16 on page 29 to line 10 on page 30 of the judgment in prior instance), to be cited.

4. Whether or not it is possible to exercise the right for harvested material pursuant to Article 2, paragraph (5), item (ii) of the Act

(1) The Plant Variety Protection and Seed Act stipulates that "the holder of a breeder's right shall have an exclusive right to exploit, in the course of business, the variety which is registered (hereinafter referred to as 'registered variety') and varieties which, by the expression of the characteristics, are not clearly distinguishable from the registered variety" (Article 20, paragraph (1) of the Act). The Act further stipulates that the "exploitation" therein refers to the act of production, transferring, and the like of the "propagating material of the variety" (Article 2, paragraph (5), item (ii) of the Act), and that, in regards to the "harvested material obtained through the use of the propagating material [of the variety]" (item (ii) of the same paragraph) and the "processed products of the variety" (item (iii) of the same paragraph), the holder of the breeder's right can extend the breeder's right only to the cases where the holder of the breeder's right "has not had reasonable opportunity to exercise his/her right" against the acts performed by producers and the like of the propagating material (in the case of exploitation of processed products, including the acts performed by producers and the like of the harvested material), thereby providing for principles for gradual exercising of rights (the provision in parentheses in item (ii) of the same paragraph, the provision in parentheses in item (iii) of the same paragraph). Next, it is interpreted that, in view of the

provisions of Article 14 of the International Convention for the Protection of New Varieties of Plants (UPOV Treaty), which became the foundation of the provisions of the Plant Variety Protection and Seed Act, the "reasonable opportunity to exercise his/her right" as used herein refers to the case in which the holder of the breeder's right and the like are aware that a third party is exploiting (including unauthorized propagation) the propagating material or harvested material of the registered variety and that it is legally possible to exercise the breeder's right against the third party through measures such as conclusion of a license agreement.

Stated differently, the acts performed by the Appellant concerning the Defendant's Mushrooms are merely the sale (transferring) of harvested material, or the Defendant's Product, so that whether or not the Appellee is able to extend the Breeder's Right to such acts by the Appellant depends on whether or not the Appellee had the reasonable opportunity to exercise the Breeder's Right against acts which involve the propagating material of the Defendant's Mushrooms.

(2) Accordingly, the process of transactions pertaining to the Defendant's Mushrooms shall be considered first. According to the evidences submitted by the Appellant (Exhibits Otsu 39, 41 to 48, 50, 51, 54, 59, 61, 99, 100, etc.; except as specifically indicated, hereinafter inclusive of branch numbers where applicable) and the entire import of the oral argument, it is acknowledged that [i] the Defendant's Mushrooms which the Appellant purchased from Kawatsuru Noken include those having been cultivated using the mushroom beds which Kawatsuru Noken purchased from SSIT, who is an importer in Japan, [ii] said mushrooms beds were imported by SSIT from mushroom bed producers in China, and [iii] said mushroom beds were produced by mushroom bed producers in China using the strains purchased from strain dealers in China, so that if the foregoing is organized chronologically together with the basic facts described in No. 2, 2 under "Facts and reasons" in the judgment in prior instance, it is acknowledged that the process of transactions, from an objective point of view, is summarized as follows.

A. Dealers in China produced, in China, the propagating material (mushroom beds) which is within the scope of right of the Breeder's Right.

B. SSIT, an intermediary in Japan, imported the propagating material (mushroom beds) of A into Japan and sold (transferred) it to Kawatsuru Noken.

C. Kawatsuru Noken used the propagating material (mushroom beds) and produced (cultivated) the harvested material, or the Defendant's Mushrooms.

D. The Appellant purchased the Defendant's Mushrooms of C and sold (transferred) them to retailers (by packaging them with other purchased goods).

Stated differently, it is interpreted that the "import" according to Article 2, paragraph (5), item (i) of the Act refers to the act of bringing the propagating material, which is outside Japan, into Japan. Accordingly, it is acknowledged that, of the acts carried out by SSIT in the above B, the act of importing the propagating material of the above A into Japan precisely falls under the "import" as stipulated in the same item, and the act of selling (transferring) the same propagating material to Kawatsuru Noken falls under the "transferring" as stipulated in the same item.

(3) Next, whether or not the Appellee had the reasonable opportunity to exercise its right shall be considered.

As described above, it is interpreted that the "reasonable opportunity to exercise his/her right" refers to the case in which the holder of the breeder's right and the like are aware that a third party is exploiting (including unauthorized propagation) the propagating material or harvested material of the registered variety and that it is legally possible to exercise the breeder's right against the third party through measures such as conclusion of a license agreement.

When the foregoing is applied to the present case, the following is acknowledged. On May 14, 2012, the Appellee sent a content-certified mail (Exhibit Ko 25, the Notice) informing the Appellant that, as a result of the comparative cultivation test taken for comparison with the Variety, it is highly likely that the Defendant's Mushrooms are in infringement of the Breeder's Right. In response, in a letter which was received by the Appellee on June 4 of the same year (Exhibit Otsu 62-1, the Written Answer), Defendant wrote, among other things, that [i] all of the Defendant's Mushrooms are purchased from Kawatsuru Noken, [ii] some of the shiitake mushrooms which are delivered by Kawatsuru Noken to the Appellant were purchased from producers in Japan while others were produced using the mushroom beds personally obtained by Kawatsuru Noken, [iii] in regards to the production of the latter case, Kawatsuru Noken produces shiitake mushrooms using the

mushroom beds purchased from mushroom bed producers in China through SSIT, a trading company. As such, it is acknowledged that the Written Response specifies the place in China from which mushroom beds were purchased as well as the name and address of the place from which strains were purchased, in addition to the name and address (location of head office) of SSIT.

In that case, the Appellee has obtained, by having already carried out a comparative cultivation test at the time of sending the Notice, an objective evidence to the effect that the Defendant's Mushrooms are highly likely to be in infringement of the Breeder's Right. Furthermore, with the help of the Written Response, the Appellee has obtained the fact that an importer in Japan (SSIT) was importing and selling mushroom beds, or the propagating material, and has obtained sufficient information to specifically identify the importer. As such, it can be said that, consequently, the fact about exploitation (including unauthorized propagation) by a third party (SSIT) of the propagating material for the Variety came to be known, and at least in regards to the mushroom beds having been imported to be sold (transferred) in Japan after the arrival of the Written Response, it is reasonable to consider that it became legally possible to exercise the Breeder's Right by, for example, concluding a license agreement with the third party (SSIT).

(4) In response, the Appellee argues as follows, among other things. The Written Response merely indicates the mushroom bed producers in China and Japan as well as the name and address of the place from which strains were purchased, and there is no objective material or explanation to support that said mushroom bed producers were involved in an act of infringement. Rather, SSIT, who is the only importer of mushroom beds in Japan, denied that the mushroom beds sold by the same company to Kawatsuru Noken are of the Variety, and explained that said mushroom beds are of the varieties "L-808" and "Koko SD-1." As such, even after receiving the Written Response, it was legally and actually difficult for the Appellee to identify an infringer other than the Appellant and Kawatsuru Noken.

However, the Written Response specifies the name of SSIT as an importer and seller of mushroom beds in addition to the location of the head office, as described above, and the Appellee has obtained, by having already carried out a comparative cultivation test at the time of sending the Notice, objective evidence to the effect that the Defendant's Mushrooms are highly likely to be

in infringement of the Breeder's Right, as described above. As such, it should be said that there was at least no legal interference for the exercising of right by the Appellee against SSIT (by identifying SSIT as an infringer concerning the propagating material).

Also, although the Appellee points out various circumstances and argues that the Appellant's refusal of the Appellee's demand, based on the assertion of the cascade principle, is against the principle of good faith and shall not be permitted, none of the circumstances can be acknowledged as worthy of being accepted.

(5) Based on the above, at least in regards to the shiitake mushroom beds which were sold (transferred) in Japan through SSIT on or after June 4, 2012, which is when the Written Response was received, it cannot be said that the Appellee did not have the reasonable opportunity to exercise its right at the stage of the propagating material (against SSIT), and thus, of the sale of the Defendant's Mushrooms by the Appellant, the Appellee cannot exercise its right, pursuant to Article 2, paragraph (5), item (ii) of the Act, against the sale of the shiitake mushrooms which are the harvested material obtained from the shiitake mushroom beds sold (transferred) in Japan on or after the same date.

Next, in regards to the Variety, while the number of days from the time the producers received the shiitake mushroom beds until completion of cultivation/growth and destruction of the mushroom beds (producers' cultivation period) is said to be 230 days (80 days for cultivation, 150 days for growth) (Exhibit Ko 16), it can be said that the same is true of the Defendant's Mushrooms whose varieties cannot be clearly distinguished from the Variety in terms of characteristics, and thus it is reasonably presumed that, at least in regards to the Defendant's Mushrooms (harvested material) sold after February 2013, which is after the lapse of 230 days from June 4, 2012, they were entirely obtained from the mushroom beds (propagating material against which the right can be exercised) sold (transferred) in Japan on or after June 4, 2012. Also, from June 4, 2012 until September 2012, if not earlier, which is after the lapse of the cultivation period for mushroom beds (80 days), and thereafter, the shiitake mushrooms from the mushroom beds purchased after June 4, 2012 have been harvested as well. Accordingly, the Defendant's Mushrooms sold after September 2012 include the shiitake mushrooms originating from the mushroom beds purchased before June 3, 2012, as well as the shiitake mushrooms originating from the mushroom beds purchased on or after the 4th

of the same month, and thus it is reasonable to presume that the percentage of the former and that of the latter are each 1/2.

Therefore, it is reasonable to acknowledge that the Appellee cannot exercise its right against the Appellant because half the volume of the Defendant's Mushrooms sold between September 2012 and January 2013, and the Defendant's Mushrooms sold after February 2013 do not fulfill the requirement of the provision in parenthesis in item (ii), paragraph (5), Article 2 of the Act, so that the act of exploitation according to the operative part of the same item is not applicable.

5. Whether or not there is abuse of right due to lack of quality stability (Issue (4))

The Appellant's argument regarding this point cannot be acknowledged, as described in No. 4, 4 under "Facts and reasons" (from line 11 on page 30 to line 3 on page 31 of the judgment in prior instance) of the judgment in prior instance, to be cited.

6. Whether or not there is negligence (Issue (5))

(1) Whether or not the provisions on presumption of negligence (Article 35 of the Act) are applicable

This court is of the same belief as the court of prior instance that the Appellant's argument, which is that the provisions on presumption of negligence (Article 35 of the Act) should not apply, shall not be accepted.

Reasons for the above are as indicated in No. 4, 5, (1) under "Facts and reasons" (from lines 5 to 21 on page 31 of the judgment in prior instance) of the judgment in prior instance, to be cited (the Appellant's arguments made in this court are, after all, merely a repetition of the arguments made in the court of prior instance, and they cannot be accepted, for the same reasons).

(2) Whether or not there is any reason for annihilating presumption of negligence

A. This court is of the same belief as the court of prior instance that there are reasons for annihilating presumption of negligence in regards to the stage prior to the Notice. On the other hand, in regards to the acts by the Appellant after the Notice, there is no reason for annihilating presumption of negligence. Accordingly, it is reasonable to acknowledge negligence on the part of the Appellant only with regard to the Appellant's acts performed after May 2012 (from June 2012 and thereafter), which is when the Notice was sent.

Reasons for the above are as indicated in No. 4, 5, (2) under "Facts and reasons" (from line 22 on page 31 to line 4 on page 35 of the judgment in

prior instance) of the judgment in prior instance, to be cited.

B. Arguments made by the Appellee

The Appellee argues that, [i] at the time of the infringement, the Appellant was a company with a large amount of sales earned from activities such as having its affiliate company, Kawatsuru Noken, cultivate shiitake mushroom beds and purchasing shiitake mushrooms from Kawatsuru Noken, and selling 500,000 - 800,000 kg of shiitake mushrooms annually, and [ii] dealers like the Appellant and Kawatsuru Noken who are engaged in cultivation/sale of shiitake mushrooms are familiar with the fact that the Register of Plant Varieties indicates only the characteristic value for log cultivation, and the fact that characteristic values for shiitake mushrooms can vary depending on the cultivation method, so that in order to confirm whether or not there is infringement of a breeder's right by comparing the characteristic value of the registered variety with the characteristic values of shiitake mushrooms handled by one's own company, it is natural to do so by means of log cultivation, and it would be easy, at least for the Appellant or Kawatsuru Noken, to carry out log cultivation by using the strains of shiitake mushrooms grown by mushroom bed cultivation. By pointing out the foregoing, the Appellee argues that annihilation of presumption of negligence should not be approved for the Appellant even during the stage prior to May 16, 2012, which is when the Notice was received by the Appellant.

However, the circumstances described in the above [i] do not immediately mean that the Appellant was aware of infringement of the Breeder's Right, or that the Appellant could naturally have been aware of the infringement, and as for the circumstances described in the above [ii], it cannot be said that the fact that there were such circumstances makes it natural to impose the same level of duty of care on ordinary dealers such as the Appellant, as explained in the judgment in prior instance.

Accordingly, the Appellee's claims cannot be accepted.

C. Arguments made by the Appellant

The Appellant argues as follows, among other things, concerning the Appellant's acts after the Notice was sent. [i] Since it takes at least one year to carry out a comparative cultivation test for log cultivation in accordance with the actual-item principle, it is reasonable to acknowledge no negligence (annihilation of presumption of negligence) on the part of the

Appellant, who "had reasonable grounds to believe that there is no infringement of the breeder's right," at least until the lapse of one year after the receipt of the Notice. [ii] Even if the above argument cannot be acknowledged, in order to carry out a comparative cultivation test for mushroom bed cultivation in accordance with the principle of actual goods, it requires at least the same length of time as the period (263 days) required for the comparative cultivation test for mushroom bed cultivation which was carried out by the Kyushu University upon request by the court of prior instance, so that it is reasonable to acknowledge no negligence (annihilation of presumption of negligence) on the part of the Appellant for the period concerned.

However, as pointed out in the prior instance, the Notice indicates that it is highly likely that the Defendant's Mushrooms are in infringement of the Breeder's Right, also indicating descriptions of the Variety and the Defendant's Mushrooms and even specifying the test method which was implemented concerning the difference in varieties. Accordingly, the Appellant should be held responsible for appropriately researching and confirming, after the Notice, whether or not the Defendant's Mushrooms are in infringement of the Breeder's Right, including DNA analysis. Since the Appellant failed to appropriately research and confirm as such, the presumption of negligence shall not be annihilated.

Accordingly, the Appellant's argument to the contrary cannot be accepted.

7. Amount of damages (Issue (7))

(1) Lost profits (Article 34, paragraph (1))

A. Calculation method for lost profits

Upon calculating the damage (lost profits) incurred by the Appellee due to infringement of the Breeder's Right by the Appellant pursuant to Article 34, paragraph (1) of the Act, this court agrees with the court of prior instance that it is reasonable to calculate the damage according to Calculation Method 4, from among the calculation methods asserted by the Appellee in the prior instance (Calculation Methods 1 to 4). In other words, the sales volume of the Appellant's shiitake mushrooms (harvested material) is multiplied by the amount of profit per unit (1 kg) in the case of the Appellee selling shiitake mushrooms (harvested material).

The reasons are as described in No. 4, 7, (2), A under "Facts and

reasons" (from line 21 on page 37 to line 16 on page 39 of the judgment in prior instance) of the judgment in prior instance, to be cited, except for modification to the judgment in prior instance (the examination by this court is premised on the Appellee conducting calculation pursuant to Calculation Method 4).

(Modification to the judgment in prior instance)

On lines 3 to 4 on page 38 of the judgment in prior instance, "[i] Kawatsuru Noken imported shiitake mushroom beds" shall be modified to "[i] Kawatsuru Noken purchased shiitake mushroom beds from SSIT".

B. Period of infringement to be covered by calculation of lost profits

As described above, in regards to the Appellant who sold the harvested material, or the Defendant's Mushrooms, the act of tort of infringement of the Breeder's Right, or in other words, the exploitation of the Variety (exploitation under Article 2, paragraph (5), item (iii) of the Act) and the negligence concerning the exploitation, shall be acknowledged only for the eight months from June 2012, which is after the Notice was sent in May 2012, until January 2013.

As for the portion of sale during September 2012 and January 2013, only half the volume shall be the subject of exercising of the right, as already explained above.

C. Transferred quantity of shiitake mushrooms of the Appellant

As described in the above B, the period of infringement of the Breeder's Right as covered by the damages of the present case is the eight months from June 2012 until January 2013. According to evidence (Exhibits Otsu 32-35, 107, 108), it is acknowledged that the transferred quantity during this period is as shown below. (When the Appellant newly scrutinized the transferred quantity during the three years from 2012 to 2014, the Appellant discovered a slight error in the quantities of each year and revised the transferred quantities for the period, but the Appellee argues that such revision shall not be permitted because it falls under repudiation of one's confession. However, the revision is that of 1,822,805.7 kg to 1,821,696.65 kg, which does not even amount to a mere 0.1 % of the entire quantity, and, in light of the evidence shown above, it is reasonable to acknowledge repudiation because the confession was based on a false statement and a mistake. Furthermore, since the period of infringement is limited to the eight months of the entire three-year period, as described

above, if the transferred quantity during this period can be specifically identified, it would be in an equitable manner for the parties to calculate the amount of damages according to the specific transferred quantity for the period of infringement instead of the method of using the prorated amount in proportion to the entire amount, as was the case in the judgment in prior instance. Accordingly, the transferred quantity for the period of infringement shall be specified as follows in accordance with the Appellant's allegation or proof in this court.)

June 2012	30,177.25 kg
July 2012	18,994.50 kg
August 2012	22,855.25 kg
September 2012	30,756.20 kg
October 2012	42,197.60 kg
November 2012	48,683.00 kg
December 2012	68,772.30 kg
January 2013	46,394.60 kg
Total	308,830.70 kg

Then, as described in the above B, the subject of calculation of the damages is the entire volume from June 2012 until August of the same year (72,027 kg) and half of the volume from September of the same year until January 2013 (118,401.85 kg), and thus the total becomes 190,428.85 kg.

Also, as recognized in the judgment in prior instance, at the time of February 2012, Kawatsuru Noken purchased mushroom beds or shiitake mushrooms through two methods, one of which is the route of purchasing mushroom beds from SSIT, and the other one of which is the route of purchasing shiitake mushrooms, or the harvested material, from shiitake mushroom growers in Japan. It is acknowledged that, in regards to the mushroom beds of the former, Kawatsuru Noken was cultivating shiitake mushrooms at its own facilities and selling them to the Appellant, and it is believed that this remains unchanged even during the period of infringement of the above B (eight months from June 2012 until January 2013). Accordingly, although originally the transferred quantity for the latter route should be subtracted from the aforementioned transferred quantity, since the entire quantity cannot be confirmed with evidence, it is reasonable to restrict the volume of subtraction to 698 kg, as asserted by the Appellant based on existing invoices (Exhibits Otsu 111, 110) (the

Appellee's arguments to the contrary shall not be approved).

Furthermore, since it is acknowledged that Kawatsuru Noken purchased multiple varieties of mushroom beds other than the goods of infringement, "L-808," it is necessary to consider the percentage of the goods of infringement in the aforementioned transferred quantity, and evidence (Exhibits Otsu 56 to 59) and the entire import of the oral argument show that it is reasonable to acknowledge the percentage to be approximately 82% (regarding this point, the Appellant argues that it is reasonable to consider that the mushroom beds delivered by SSIT under the name "L-808" constitute approximately 60% because of their low rate of growth into shiitake mushrooms compared to other varieties, but even in light of factors such as the evidence [Exhibit Otsu 112] submitted in this court, it cannot be acknowledged that it is reasonable to immediately accept the same percentage).

Based on the above, the transferred quantity pertaining to the period of infringement according to the above B (eight months from June 2012 until January 2013) (the transferred quantity which becomes the basis for calculation of damages) is 155,579.297 kg, as shown below.

(Calculation formula)

(190,428.85 kg - 698 kg) × 0.82 = 155,579.297 kg

D. Amount of profit per unit of sale by the Appellee

This court agrees with the decision by the court of prior instance that it is reasonable to acknowledge that the amount of profit per kilogram of the Appellee's shiitake mushrooms is 152 yen.

The reasons are as described in No. 4, 7, (2), C, (A) to (C) (from line 23 on page 40 to line 8 on page 42 of the judgment in prior instance), to be cited.

E. Capacity of exploitation by the breeder's right holder, etc.

This court agrees with the decision by the court of prior instance that, at the time of the act of infringement in the present case, it is reasonable to acknowledge, in regards to the transferred quantity as recognized in the above C, that the Appellee had the "capacity for exploitation" as prescribed in the operative provision paragraph (1), Article 34 of the Act, of being able to supply in response to the additional demand for harvested material which would have occurred had there not been the act of infringement.

The reasons are as described in No. 4, (7), (2), D, (A) and (B) (from

line 9 on page 42 to line 9 on page 43 of the judgment in prior instance) under the "Facts and reasons" of the judgment in prior instance, to be cited.

F. Whether or not there is any "circumstance under which the holder ... may not be able to sell" (proviso of paragraph (1), Article 34 of the Act)

(A) This court agrees with the court of prior instance that it is reasonable to acknowledge that, in regards to the quantity corresponding to 70% of the transferred quantity of the aforementioned goods of infringement, there were circumstances which made the Appellee unable to sell the goods.

The reasons are as described in No. 4, (7), (2), E, (A) and (B) (from line 10 on page 43 to line 24 on page 44 of the judgment in prior instance) under the "Facts and reasons" of the judgment in prior instance, to be cited.

(B) Arguments made by the Appellant (arguments made in this court)

The Appellant points out that, [i] in the market of shiitake mushrooms, as fresh vegetables, the Defendant's Mushrooms had a competitor who has an overwhelming share of 99.9%, [ii] the sales outlet which consists of retailers and which the Appellant (infringer), a manufacturer and seller of Japanese pickles, has built up through conventional transactions, as well as the market development through sales efforts made towards retailers and wholesalers led to the sales performance of shiitake mushrooms, [iii] compared to the Appellee's shiitake mushrooms, the goods of infringement were individually packed at a low cost, and was of a good quality, for example having the appearance intended for general consumers, and [iv] the Appellee's shiitake mushrooms, sold for professional use, and the Appellant's shiitake mushrooms, sold to general consumers, (Defendant's Mushrooms) do not share the same market. Accordingly, the Appellant argues that it is reasonable to acknowledge that the Appellee had the "circumstance under which the holder ... may not be able to sell" (proviso of paragraph (1), Article 34 of the Act) in regards to the entirety of the transferred quantity or an amount corresponding to 99.99% thereof.

However, it should be said that the idea that the market share of the above (i) (non-occupancy percentage) directly reflects the "circumstance under which the holder ... may not be able to sell" (the

ratio) is a matter of extreme logic and should not be accepted. Furthermore, since it cannot be said that placing emphasis on the trust and the selling power, which the Appellant built through the manufacture and sale of Japanese pickles as described in the above (ii), particularly in the market of shiitake mushrooms, is supported by objective evidence to be relevant, such argument cannot be accepted, either. Similarly, the points made in the above (iii) and (iv) are not sufficient to acknowledge that there was a "circumstance under which the holder ... may not be able to sell" beyond the percentage of 70%, as recognized in the judgment in prior instance.

After all, the various arguments made by the Appellant in this court are merely a repetition of the arguments made in the court of prior instance, and thus it must be said that they cannot be accepted.

(C) Arguments made by the Appellee (arguments made in this court)

On the other hand, the Appellee argues that, among others, the discussion on matters such as market competitiveness on the premise of a sale which is not based on a legitimate right (sale of goods of infringement) is, in itself, improper, and that the Appellee had no "circumstance under which the holder ... may not be able to sell" according to the proviso of paragraph (1), Article 34 of the Act because, had there been no act of infringement by the Appellant, the Appellee would have been able to derive the profit of 152 yen per kilogram through the sale of all shiitake mushrooms pertaining to the Variety.

However, circumstances, such as there being a significant change to market shares of the Appellant and the Appellee before and after the act of infringement, have not been indicated in particular, and there is no other objective circumstance that supports the acknowledgement that the Appellee "would have been able to sell," which goes further than was acknowledged in the judgment in prior instance.

Accordingly, the Appellee's argument regarding this point cannot be accepted, either.

G. Summary

Consideration of the amount of lost profits to be acknowledged in the present case on the premise of the above shall be as follows.

The period during which the act of tort by the Appellant of infringement of the Breeder's Right is established shall be the eight months

from June 2012 until January 2013, and the transferred quantity during this period (the transferred quantity which becomes the basis for calculation of damages) is 155,579.297 kg, and the amount obtained by multiplying 152 yen, which is the amount of profit per kilogram of the Appellee's shiitake mushrooms, thereby is 23,648,053 yen.

It should be noted, however, that it is acknowledged that there was a "circumstance under which the holder ... may not be able to sell" on the part of the Appellee in regards to 70% of the aforementioned amount, and thus, by subtracting the 70% from the total amount, the amount of lost profits to be acknowledged for the Appellee in the present case shall be 7,094,415 yen.

(Calculation formula)

155,579.297 kg × 152 yen = 23,648,053 yen

(round down to the nearest decimal)

23,648,053 yen × (1 - 0.7) = 7,094,415 yen

(round down to the nearest decimal)

(2) Investigation costs

According to evidence (Exhibits Ko 19 to 21), it is acknowledged that, in order to research for facts about the infringement of the Breeder's Right, the Appellee spent [i] 116,260 yen as the cost for preparing documents such as a record of the state of infringement, [ii] 1,439,778 yen as the cost for preparing variety investigation documents, and [iii] 467,882 yen as the cost of DNA analysis (2,023,920 yen in total). However, in light of circumstances such as that the exercising of right for harvested material, pursuant to Article 2, paragraph (5), item (ii) of the Act, is partially restricted in the present case, it is reasonable to acknowledge that, of the aforementioned amount, only the amount of 1,011,960 yen, which corresponds to 1/2 of the amount, shall have a reasonable causal relationship with the Appellant's act of infringement.

(3) Attorney's fees

It is reasonable to acknowledge that the amount of 810,000 yen shall be the damage which corresponds to the attorney's fees having a reasonable causal relationship with the act of infringement of the present case.

(4) Total of damages

Based on the above, the total amount of damages payable by the Appellant to the Appellee shall be 8,916,375 yen.

Although the Appellant also argues that comparative fault should be

acknowledged separately, there is no circumstance for which comparative fault would be appropriate in the present case, even by taking into consideration the various arguments made by the Appellant, and thus the claim made by the Appellant concerning comparative fault cannot be accepted.

8. Demand for an injunction, etc.

As was recognized above, in light of circumstances, such as that it is reasonable to acknowledge that the sale of the Defendant's Mushrooms conducted after February 2013 does not fulfill the requirement of the provision in parentheses in item (ii), paragraph (5), Article 2 of the Act, and does not fall under the act of exploitation according to the operative provision of the same item, and that the Appellee cannot exercise its right against the Appellant (the Appellee should exercise its right against SSIT, who is engaged in exploitation at the stage of the propagating material), it is not reasonable to accept the demand for an injunction and the demand for destruction in the present case.

9. Demand for an apology ad

Although the Appellee demands that an apology ad be published as a measure for restoring confidence, such need cannot be acknowledged in light of various circumstances, including the degree of infringement of the Breeder's Right and other matters acknowledged in the present case.

No. 4 Conclusion

From what is descried above, in regards to the claims made by the Appellee against the Appellant, [i] the demand for damages based on an act of tort is reasonable, within the extent of seeking payment of a total of 8,916,375 yen in damages as well as the delinquency charge accruing therefrom at an annual interest rate of 5% from November 26, 2014, which is the day immediately following the act of tort (day immediately following the date of service of the complaint), up to a date when the payment is completed, and shall be accepted, and the remainder of the demand, being groundless, shall be dismissed, and [ii] the demand for an injunction and the demand for disposition, pursuant to paragraphs (1) and (2) of Article 33 of the Act, as well as the demand that an apology ad be published pursuant to Article 44 of the Act, being groundless, shall be dismissed entirely.

Put simply, the judgment in prior instance, which has determined otherwise, is unreasonable, while the appeal of the present case (the appeal by the Appellant) is partially reasonable, so that the judgment in prior instance shall be modified as described above, and the Incidental Appeal (the incidental appeal by the Appellee), which is groundless, shall be dismissed, and the judgment shall be rendered as per the

main text.

Intellectual Property High Court, Third Division

Presiding Judge:	TSURUOKA Toshihiko
Judge:	TERADA Toshihiko
Judge:	MAGIRA Hiromitsu