



New Calculation Method of Damages Introduced to Increase Compensation in Piracy Cases

Amendments to Japan's Copyright Act in 2024

The Act Partially Amending the Copyright Act (hereinafter, the "Amended Copyright Act" and the Copyright Act before the revision the "Current Copyright Act") was enacted in May 2023 and is expected to come into effect January 1st, 2024.

This amendment has three points of focus: (1) creation of a new adjudication system to facilitate the use of copyrighted works; (2) measures to allow the public transmission of copyrighted works within the legislative and administrative branches; and (3) introduction of a new method to calculate damages to increase the compensation for losses suffered from piracy; this newsletter will focus on (3), which was implemented through amendment to Article 114 of the Current Copyright Act.

1. Background of Amendment

(1) Overview of Article 114 of the Current Copyright Act

Article 114 of the Current Copyright Act was enacted in response to the fact that when instances of infringement, including damage from piracy, occurred it was difficult to calculate the amount of damage caused by such infringement, which hindered copyright holders from pursuing infringers.

Article 114, paragraph 1 provides that the amount of damages may be determined by multiplying the quantity of pirated copies (infringing goods) sold by the copyright infringer by the amount of profit per unit that the copyright holder would have earned if they had been able to sell their goods through authentic channels, and Article 114, paragraph 2 provides that the amount of profit earned by the copyright infringer from the sale of pirated copies may be presumed to be equivalent to the amount of damages. Article 114, paragraph 3 stipulates that in the event of copyright infringement, including damage from piracy, the copyright holder can demand the amount equivalent to the money which the copyright holder should have received in connection with the exercise of the copyright (licensing, etc.).

(2) Issues Concerning the Current Copyright Act

According to a report by a council established by the Agency for Cultural Affairs, damage from piracy (copyright infringement) is becoming widespread in all fields, including publications (including manga), music, and software arising from the growing demand for digital content, coupled with faster communication speeds and the global spread of sophisticated terminals.¹ In addition, the issue of so-called "fast movies" in which subtitles and narration are added to movie footage without permission and the footage edited down to 10 minutes, is still fresh in mind. More recently, a newspaper article posted on a

¹ Report of the International Subcommittee of the Copyright Subdivision of the Cultural Council (January 2023) https://www.bunka.go.jp/english/policy/copyright/copyright_subdivision.html (https://www.bunka.go.jp/seisaku/bunkashingikai/chosakuken/bunkakai/66/pdf/93831401_06.pdf) p. 2 and below

company's intranet was found to be a copyright infringement and the company was ordered to pay damages². The Agency for Cultural Affairs and the Cabinet Office have published a document titled "The Relationship between AI and Copyright, etc."³ to alert people to the problem of copyright infringements in relation to images (reproductions) created with image-generating AI. In short, it is fair to say that the diversity and complexity of issues related to copyright infringements, starting with damage from piracy, is increasing.

However, as regards claims for damages for copyright infringement, including damage from piracy, it was pointed out that the amount of damages recognized under Article 114 of the Current Copyright Act is low, while the infringing party retains most of the profits obtained as a result of the infringement.⁴

The Amended Copyright Act was drafted with an awareness of the problem that a significant part of the profits from infringement remained in the hands of infringers, while copyright holders were not given adequate relief.

2. Details of Amendment

(1) Article 114, paragraph 1 of the Amended Copyright Act (Calculation of the amount of damages based on the quantity sold)

Article 114, paragraph 1 of the Current Copyright Act stipulates that, from the amount calculated based on the below formula,

$$\begin{array}{c} \text{Quantity sold by the infringer} \\ \times \\ \text{Amount of profit per unit yielded if the copyright holder had sold the product} \\ \text{through authorized channels} \end{array}$$

the amount remaining after deducting (i) the quantity exceeding the copyright holder's ability to sell, etc., and (ii) the quantity for which circumstances would render the copyright holder unable to sell, shall be the amount of loss incurred by the copyright holder.

The reason (i) and (ii) above are excluded from the calculation of damages is based on the idea that to the extent that the copyright holder cannot sell the pirated copies itself it has not lost the opportunity to sell even if the pirated copies are sold, and therefore no damage (lost profit due to lost sales opportunity) is incurred. In this regard, even if the copyright holder is not able to sell directly, it is usually possible for the copyright holder to earn license fees through licensing, and thus the copyright holder may be considered to have lost profits due to the loss of opportunity to earn such license fee income as a result of the selling of pirated copies. However, opinions have been divided as to whether or not the amount equivalent to lost profits from license fees can be awarded as damages under Article 114 of the Current Copyright Act, as the terms of the Article are not clear.

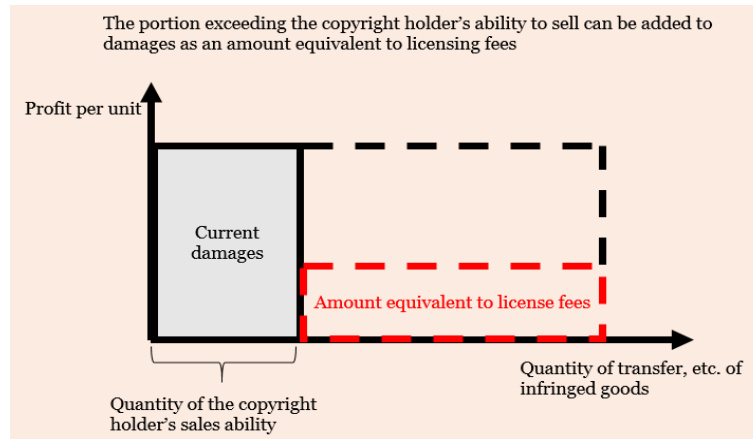
Therefore, Article 114, paragraph 1 of the Amended Copyright Act clearly stipulates that the copyright holder can claim damages for the portion of license fees that the copyright holder could have earned but for the infringement, even if it is beyond the scope of the copyright holder's own ability to sell, and provides a more effective remedy for copyright holders who have suffered copyright infringements, including damage from piracy.

Figure 1 below is an illustration of Article 114, paragraph 1 of the Amended Copyright Act. Originally, under Article 114, paragraph 1 of the Current Copyright Act, it was possible that only the portion indicated in black would be regarded as damages, whereas the same paragraph of the Amended Copyright Act clarifies that the portion indicated in red can also be included in damages.

² Based on the Intellectual Property High Court Judgment of June 8, 2023 (Reiwa 5 (ne) No. 10008).

³ Agency for Cultural Affairs and Cabinet Office, "Relationship between AI and Copyright, etc." (https://www8.cao.go.jp/cstp/ai/ai_team/3kai/shiryo.pdf)

⁴ "Report on the 22nd Legal System Subcommittee of the Copyright Subdivision of the Cultural Council", p. 14 (https://www.bunka.go.jp/seisaku/bunkashingikai/chosakuken/bunkakai/66/pdf/93831401_05.pdf) p. 20

Figure 1.

Prepared based on "Report of the Legal System Subcommittee of the Copyright Subdivision of the Cultural Council (Summary)", p. 14⁵

As an example, one can consider a case where an individual illustrator (copyright holder) creates an illustration which can be sold for a profit of 5,000 yen per genuine copy, and an educational material publisher uses the said illustration in its educational materials without permission and sells 10,000 copies of such materials. Under Article 114, paragraph 1 of the Current Copyright Act, it could be considered that the individual illustrator who has limited ability to sell would only have been able to sell 100 copies of the illustration, and thus the damages the illustrator could claim under the said provision would be merely 500,000 yen (5,000 yen x 100 copies).⁶

However, under Article 114, paragraph 1 of the Amended Copyright Act it is possible to claim damages equivalent to the license fees for the quantity exceeding the copyright holder's ability to sell. As such, if the license fee per copy is say 1,000 yen, it is possible to claim damages based on license fees for the 9,900 copies which the copyright holder is considered as being unable to sell, leading to a damages claim of 10,400,000 yen (500,000 yen + 9,900,000 yen).

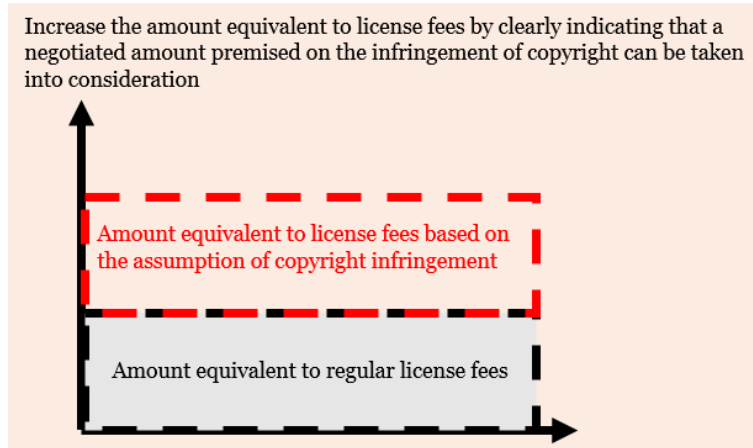
(2) Addition of Article 114, paragraph 5 to the Amended Copyright Act (Increase of amount equivalent to license fee)

Article 114, paragraph 3 of the Current Copyright Act stipulates that in the case of a copyright infringement, including damage from piracy, the copyright holder can demand as damages the amount equivalent to the money which the copyright holder should have received in connection with the exercise of the copyright (licensing, etc.). When calculating the amount of damages under the aforementioned paragraph, the language of the Current Copyright Act has sometimes been interpreted so that "the amount equivalent to the money which the copyright holder should have received in connection with the exercise of the copyright (licensing, etc.)" is equal to "the amount equivalent to the license fee", while others have argued that this interpretation is not inevitable and a reading more favorable to the copyright holder is also possible. However, in practice many judicial precedents where the amount of the damages has been calculated pursuant to the said paragraph 3 have stopped at the "amount equivalent to the license fee", and there was an awareness that the remedies available to copyright holders were not necessarily sufficient. Based on this awareness, the newly added Article 114, paragraph 5 of the Amended Copyright Act clarifies that the fact of infringement against the copyright holder can be taken into consideration when calculating damages under paragraph 3 of the same Article, which grants copyright holders whose copyrights have been infringed, including damage from piracy, a more effective remedy through the calculation of additional damages exceeding the existing "amount equivalent to the license fee".

Figure 2 below is an illustration of the amendment, with the extent of damages recognized under the Current Copyright Act in black and the amended portion added on top in red.

⁵ https://www.bunka.go.jp/seisaku/bunkashingikai/chosakuken/hoseido/ro4_09/pdf/93828701_01.pdf

⁶ One judicial precedent where an individual author was found to have no selling ability is the Tokyo High Court Judgment of June 29, 2004 (Heisei 15 (ne) No. 2467). In this decision, application of Article 114, paragraph 1 itself was denied on the grounds that the copyright holder had no ability to sell the products at issue, which were of a similar type as Japanese language tests.

Figure 2.

Prepared based on "Report of the Legal System Subcommittee of the Copyright Subdivision of the Cultural Council (Summary)", p. 14

In the case of the Patent Act, which has already been amended to introduce provisions with similar purposes to those added in the Amended Copyright Act (Article 102, paragraphs 3 and 4 of the Patent Act), it has been vigorously argued that the amount of damages when taking the fact of infringement of a patent into consideration will be approximately twice the amount of damages without taking the fact of infringement into consideration (the infringement premium theory).⁷ Whether or not the amount of damages is doubled, it is thought that the infringement premium theory will be applicable in some form under the Amended Copyright Act.⁸

For example, if a cable TV broadcaster rebroadcasts a TV program without a license and the broadcast is viewed by five million households, if the infringement premium theory of the Patent Act is applied fully and the ordinary license fee for other broadcasters is 40 yen per household per channel, then the amount of damages under Article 114, paragraphs 3 and 5 of the Amended Copyright Act could be 80 yen per household per channel instead of 40 yen, resulting in total damages of 400 million yen.

3. Summary

As discussed above, it has been pointed out that in the case of claims for damages for copyright infringement, including damage from piracy, the amount of damages recognized under Article 114 of the Current Copyright Act is low, while the infringing party retains most of the high profits obtained as a result of the infringement. The amendment is scheduled to take effect on January 1, 2024, and is expected to increase the amount of damages available to copyright holders and provide effective relief where they have incurred damage from piracy.⁹

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⁷ While in a strict sense this applies to the Patent Act prior to its amendment with purposes similar to the Amended Copyright Act, the Intellectual Property High Court Judgment of June 7 2019, *Hanrei Jiho* No. 2430, p. 34 calculated the amount of damages at a rate of 10% while the market license fee rate was 5.3% upon consideration of the intent of Article 102, paragraph 3 of the Patent Act (a provision with a purpose similar to that of Article 114, paragraph 3 of the Copyright Act) and the elements of judgment. Other examples include Naoki Koizumi et al., "Article-by-article explanation of the Copyright Act" (Kobundo, 2023) pp. 955-956; Yoshiyuki Tamura, "Intellectual Property Rights and Damages [3rd Edition]" (Kobundo, 2023) p. 436; Ichiro Nakayama "Infringement Premium in Calculating Damages under Article 102, Paragraph 3 of the Patent Act", Intellectual Property Law Policy Studies vol. 61 (2021), p. 12 et seq.

⁸ Koizumi et al. in footnote 7 above, p. 956

⁹ As this newsletter is intended to provide an overview of the Amended Copyright Act, some sections have been intentionally simplified. If you have any questions regarding the details of this amendment, please contact the Authors.

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