

“Anti-Counterfeiting Measures”

Chapter 2. Anti-Counterfeiting Measures in Japan

(Sakura)

In the second part, we'll look at measures available in Japan to respond to damage from counterfeit goods.

(Eddy)

Right.

(Sakura)

So Eddie, what do you think is the best way to combat the spread of counterfeit goods within Japan?

(Eddy)

Well...

(Sakura)

Actually, there are many ways, depending on the situation.

(Narrator)

In Japan, the main methods are to take civil action, seek criminal penalties where applicable, and request a customs suspension.

(Narrator)

In civil procedures, if both parties intend to negotiate, the right holder first sends a warning letter.

(Narrator)

If the right holder plans to take the case to court, they can institute a civil action to request an injunction or claim damages. The measures to be taken should be decided after considering how Japanese laws apply to the holder's IP rights and to the kind of damage.

(Sakura)

Now let's look at the kind of Japanese laws related to anti-counterfeit measures.

(Narrator)

In Japan, IP rights are not protected by a single law. Instead, a number of laws, including the Patent Act, the Utility Model Act, the Design Act, the Trademark Act and the Copyright Act, contain provisions regarding infringement. In addition, the Unfair Competition Prevention Act applies; for litigation there is the Civil Code and the Code of Civil Procedure; and the Penal Code is applicable

where criminal penalties are involved. There are also provisions for protecting IP rights in the Customs Act and the Provider Liability Limitation Act. Which of these many laws is applicable depends on factors such as the kind of counterfeit, the rights held, and what measures are to be taken.

(Sakura)

Let's look at the measures available when someone is selling a product that closely resembles yours, and even bears a similar trademark.

(Sakura)

The first step is to send a warning letter.

(Narrator)

The warning letter must clearly state your rights, describe the actions of the other party and how they infringe your rights, and demand that they cease the infringement. You may also have to ask them to state the amount of infringing products sold and their proceeds.

(Eddy)

Why do you send a warning letter first, instead of immediately taking them to court?

(Sakura)

That's because not all infringers are acting deliberately. Sometimes a warning letter will resolve the situation.

(Narrator)

How is it possible to infringe unintentionally? For example, someone might be selling counterfeit goods that they believe are parallel imports. It's also possible to infringe by omission, meaning they are unaware that someone else owns rights. In these cases too, the first step is to send a warning letter. This should inform them that they are acting without authorization, that they are infringing on your IP rights, and demand that they stop. This may be enough to make them realize their wrongdoing and cease infringing.

(Eddy)

Is it very common to send warning letters?

(Sakura)

Yes. For trademark infringements it's normal to start by sending a warning letter. If the offending party stops infringing, the matter can be resolved without the cost and time for both sides of legal or other action.

(Eddy)

How do people respond to a warning letter?

(Sakura)

They might accept they are at fault and immediately stop. They might deny they are infringing and continue selling. They might agree to negotiate. Or they might ignore the warning.

(Narrator)

If the recipient of the warning letter agrees to stop, and to negotiate damages or other compensation, then the matter is resolved.

(Narrator)

However, if the infringer ignores the warning letter or denies that they are infringing, the next step is to move to litigation or other measures. The main reasons for denying that they are infringing are that the right holder does not have a valid right, that they possess a license agreement, or that the product is a parallel import.

(Sakura)

Let's look at how litigation can be used. The litigation measures against counterfeiting and infringement are criminal prosecution and civil action. These are mainly used to obtain injunctions to stop infringing acts or to claim damages.

(Narrator)

To start a civil action, the first step is to submit a petition to the court. In Japan's three-tiered court system, civil actions are normally heard by the district courts that make up the first tier. Because of the special characteristics of IP infringement cases, these may also be brought before the Tokyo and Osaka District Courts in addition to the original court having jurisdiction.

(Narrator)

In addition to holders of patents, trademarks and other IP rights, infringement suits may also be brought by exclusive license holders and exclusive use holders. However, non-exclusive license holders and non-exclusive use holders only have the right to use but not to demand an injunction, and so they cannot claim compensatory damages.

(Narrator)

The Unfair Competition Prevention Law is a law governing certain specified offenses and does not refer explicitly to categories of right holders such as patent or trademark right holders. Any person who has suffered or is in danger of suffering damages to business profits through unfair competition has the right to bring an action under this law.

(Narrator)

The right holder bringing the case is already suffering damages from the counterfeit goods, so it is first necessary to act quickly to stop the infringing acts. In Japan this is done by means of a provisional injunction. In a separate procedure from the main court action, a provisional injunction may be obtained to stop the infringing acts until the main case is decided. In speedy cases, the court may issue this order within two to three months. However, in order to obtain a provisional injunction order, it is necessary for the plaintiff to put up collateral, and damages will not be awarded until the case is decided.

(Sakura)

This chart shows what happens after you submit a petition to the court. Since this is a civil action, a settlement may be reached during the trial, and this is sometimes advised. Settlements are possible at any point up until just before the conclusion of the trial. A record of settlement has the same binding effect as a court judgment.

(Eddy)

Is that so?

(Eddy)

What kind of claims does a plaintiff make?

(Sakura)

The plaintiff should assert their grounds and the amount of their claim, and request an injunction and compensation, as well as the destruction of the counterfeits.

(Narrator)

The grounds for the claim mean specifying the plaintiff's trademark right, details of the defendant's infringing acts and the amount of losses.

(Narrator)

The defendant counters these claims with a written reply arguing that the plaintiff's assertions are false. They might argue that their actions do not constitute an infringement, or that they caused no damage to the plaintiff.

(Narrator)

Why might the assertions of a trademark right holder be inapplicable? The defendant could argue that there is no infringement of rights since, for example, the plaintiff does not own a valid right, there is no similarity with the plaintiff's trademark or product, or the defendant has a legitimate right to use.

(Narrator)

It is very difficult to establish the exact value of the damage caused. In Japan rules for estimating damages are laid down in the Trademark, Patent and other relevant laws and the amount can be calculated based on these. The plaintiff can also request the defendant to submit accounts and documentation needed to calculate damages. At the conclusion of the trial, if the parties are not satisfied with the judgment, they can appeal to a higher court.

(Eddy)

I think I understand how a civil procedure works. Is it also possible to pursue criminal liability?

(Sakura)

Yes. If you pursue criminal liability for an IP infringement, penalties are laid down in IP laws such as the Patent Law and Trademark Law.

(Narrator)

The penalties stipulated in the IP laws are essentially a part of the penal code and so the provisions of the criminal law apply. This means that willful intent must be proven to establish an infringement offense. Attempted infringement or negligent or failed actions will not be held liable for infringement. Infringement offenses may be punished by a fine or a prison sentence, or both.

(Eddy)

What other means of conflict resolution are there, apart from the courts?

(Sakura)

The most effective method is to make a request to customs.

(Sakura)

Since most infringing products in Japan have been imported from abroad, obtaining a customs suspension is extremely effective in preventing their distribution domestically.

(Narrator)

The customs suspension system works like this:

When an IP right holder determines that a cargo about to be imported will infringe their right, they apply to the Chief Customs Inspector to initiate identification procedures.

(Narrator)

Most countries have procedures for making such applications to customs. The difference in Japan is that, in addition to trademarks, an application can be made on the basis of patents, utility model, designs, copyrights and plant breeder's rights.

(Narrator)

An application for customs suspension can also be made on the basis of the Unfair Competition Prevention Law. The right holder first submits an application for suspension to the Chief Customs Inspector. If necessary, advice is requested from a specialist committee, and then customs decides whether or not to accept the application.

(Narrator)

If a customs investigation finds suspected goods, customs notifies both importer and right holder that identification procedures have been initiated. Both parties submit their opinions and evidence concerning the suspected goods to customs. The contents of the submissions are disclosed to both parties as far as possible and both are given an opportunity to present objections. On the basis of this, customs decides whether the goods are infringing or not.

(Eddy)

Why are expert advisors consulted about the application for suspension?

(Sakura)

Sometimes it is too difficult to decide on the application for suspension from the submitted documentation only. Appropriate expert advisors are selected for each case from a registry of lawyers, patent attorneys and academics.

(Eddy)

If the infringement is recognized, what happens next?

(Sakura)

If the importer objects to the decision, they can file a formal objection. If the importer does not file an objection and does not voluntarily dispose of the infringing goods themselves, customs will confiscate and destroy the goods.

(Eddy)

Are penalties only imposed on the person who imports infringing goods?

(Sakura)

The Customs Law provides for dual liability. What this means, for example, is that if an employee of a company imports or tries to import counterfeit goods in the course of their employment, then their company, as importer, will be held responsible for the employee's actions and can be fined up to 10 million yen.

(Narrator)

There are about 20,000 cases of import seizures each year, amounting to over 600,000 items. For

both cases and number of items, trademark violations are most common, and make up over 85% of all seized IP rights infringing goods. The next most common are copyrights and design rights.

(Narrator)

Here are the numbers for import seizures, ranked by source country.

(Eddy)

You explained about sales of counterfeit goods over the Internet in Part One, but when counterfeits are found on the Internet does the provider also have liability?

(Sakura)

Yes, amendments to the laws have defined provider liabilities.

(Narrator)

When counterfeits are spotted being sold by Internet auction, the most important thing is to take action to get the vendor to stop. The problem is that individual claims against vendors are not very effective. That's why the law has been amended to hold the auction site operator or provider responsible for allowing counterfeits to be auctioned. The idea behind this is to encourage the legal operation of networks. In Japan, the Provider Liability Limitation Law takes both sides into account in order to prevent providers and others from suffering excessive liability.

(Narrator)

The Provider Liability Limitation Law specifies the limits of liability for damages of providers and others, and the right to request disclosure of identification information for vendors.

(Narrator)

For example, when a vendor displays counterfeit goods on a provider's site with intent to sell, if the provider knows that the goods infringe on another person's right, then damages will apply. If there is an obvious infringement and the right holder needs information about the vendor in order to claim damages, then the provider must disclose the necessary information. Because of this law, the provider is now urged to deal with this matter voluntarily.

(Eddy)

The law urges the provider to act voluntarily, but doesn't this place a heavier liability on the provider?

(Sakura)

That's not always the case. The law states that if the provider has no way of knowing or recognizing that the goods displayed on their sight are infringing, then there is no liability.

(Sakura)

Furthermore, since the law recognizes the provider's right to delete information on infringing goods from their site and clearly stipulates that the provider is allowed to disclose information on the vendor, the provider no longer needs to worry about being caught between the vendor and right holder.

(Eddy)

Does the provider have any liability toward the IP right holder?

(Sakura)

There have been cases in the past concerning the liability of an operator of a web site that sold counterfeit goods.

(Narrator)

One past decision originally ruled that the operator of a mall was not the infringing entity, but a later decision ruled that even the operator of a shopping mall that offered goods for a vendor infringing a trademark right could in some cases also be held to be infringing the trademark right. In other words, there has also been a decision that if a vendor is deemed to be infringing a trademark right, the web site operator is also liable unless they delete the infringing materials from that web site within a reasonable time.

(Narrator)

At present in Japan two organizations, the Council for Intellectual Property Protection on the Internet and the Provider Liability Limitation Act Guidelines Review Council, form the basis for effective ongoing cooperation between right holders and providers to prevent the distribution of IPR infringing goods over the Internet.

(Narrator)

In practice, it is proving effective when right holders supply providers with information and materials about infringing products and request that providers stop offering the infringing content, and providers accept this request in good faith and delete the pages related to the infringing products.

(Sakura)

When the market is flooded with counterfeit goods it causes significant damage for both businesses and consumers, and also affects economic growth. Let's look at the measures the Japanese government is taking to counter this influx of counterfeits.

(Narrator)

The Cabinet Office has set up the Intellectual Property Strategy Headquarters. This implements various measures based on the Strategic Program for the Creation, Protection

and Exploitation of Intellectual Property.

(Narrator)

The Ministry of Economy, Trade and Industry has established the Office of Intellectual Property Protection and also provides financial assistance to small and medium enterprises for rights registration and counterfeit-related investigations.

(Narrator)

Other basic approaches to preventing the distribution of counterfeit goods and persuading consumers not to buy them include campaigns to eradicate counterfeit and pirated products. International initiatives include bilateral symposiums with countries of origin of the counterfeit goods entering Japan, exchanging memorandums, and holding seminars.

(Sakura)

It's not only the Ministry of Economy, Trade and Industry that takes action to protect IP rights. Many ministries and agencies have their own initiatives.

(Eddy)

What kind of things are they doing?

(Narrator)

The Ministry of Agriculture, Forestry and Fisheries has a system to monitor trademark applications as a measure to prevent counterfeits abroad masquerading as Japanese origin food products or agricultural, forestry or fishery products. The Ministry of Internal Affairs and Communications and the Agency for Cultural Affairs deal with Internet copyright violations, and the Consumer Affairs Agency has also set up a consulting service to control the spread of rights damage. The Ministry of Foreign Affairs supports Japanese enterprises expanding abroad by providing consultations and conveying requests to other countries.

End of Chapter 2