

Countermeasures to Counterfeiting Problems

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Asia-Pacific Industrial Property Center, JIII

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Chapter 1: Counterfeiting Problems

Introduction

As Japanese companies expanded their trade in Asia in recent years, economic relationships with such Asian countries as China have become increasingly more important. On the other hand, it is a fact that damage from counterfeiting is spreading all over the world. One of the reasons is that inexpensive counterfeits are mass produced, mainly in China, and shipped abroad.

It is also true that such a global flood of counterfeits and pirated copies are not only violating intellectual property rights of Japanese companies, but also causing enormous damage to these companies.

Under these circumstances, it has become necessary for Japanese companies to take measures against counterfeiting both in the global market and at the domestic border.

This text intends to shed light on present damage caused by counterfeit goods, identifying applicable laws as counteractive measures and discussing specific enforcement thereof.

1. What are counterfeit goods?

It is not a simple task to define counterfeit goods. For instance, they may be generally defined as “Illegal goods infringing upon genuine goods that are legally protected under Industrial Property Law and Copyright Law.” However, it is not necessarily appropriate to call all so-called “intellectual property infringing goods” counterfeit goods. Particularly when it is infringing patents, this can lead to a patent infringement law suit with another company in the middle of competitive technical development.

Therefore it is easier to understand what counterfeit goods are when they are defined as “free-riding” goods that are produced with no investment and are infringing other people’s industrial property rights such as Trademark rights, Design rights, Patent rights, including Copyrights (goods infringing copyrights are normally called “pirated copies”) such as music, motion pictures, and computer software.”

It is a serious problem when counterfeit goods are produced and distributed globally by offenders who are fully aware they are violating other people’s rights. Furthermore, the problem becomes more serious when it is operated by a business related to organized crime; that it is too difficult for normal companies to deal with on their own. However, some

counterfeit goods are made unintentionally, having no idea at all about intellectual property rights.

In any event, a counterfeiting problem is an intellectual property infringement case having an aspect of intentional violation (some cases are of negligence).

With regard to terminology, there are other terms that describe those other than counterfeits such as “pirated copies,” meaning goods that infringe copyrights as mentioned earlier, and also “copied goods” or “imitation goods”.

However it is described, it is not permissible to produce illegal goods by copying other people's intellectual creation, or by stealing their reputation or credibility.

2. Damage caused by counterfeit goods

The reason for counterfeiting is to gain profit from already established popular products in general. At one point in the past, counterfeit goods were considered “fame tax” for a hot seller; however that turned out to be a totally mistaken view. If one neglects counterfeit goods, it cannot only rob consumers' trust in a company, but may also lead a business to collapse in the end. One handbag maker in Europe was unable to sell new products and was forced to withdraw from the market when they did not pay attention to the counterfeit goods problems.

Counterfeiting not only harms profit of a right holder, but also undermines consumers and society as a whole, and therefore it needs to be considered from various standpoints.

To begin with, there is “damage to consumers (customers).” This means that counterfeit goods can harm consumer's health, life or property.

For instance, when a product that a consumer bought believing to have been genuine turns out to be a counterfeit, it causes monetary damage. Another example would be counterfeit batteries used in a digital camera exploding during use and physically harming a consumer . Also, counterfeit medicine and food articles may endanger the life of the consumer.

Secondly, there is “damage to businesses (right holders).” Counterfeit goods infringe a business's rights, tarnish corporate image with fake brand names, and reduce profits by compromising sales of genuine products which eventually erode a corporation's motivation to invest.

Thirdly, there is “damage to a nation.” This includes a decline in national finance (tax revenue) caused by reduced sales of genuine products, tax evasion by the fake businesses, increases in public fund spending towards enforcement, loss of employment due to reduced sale of genuine goods displaced by counterfeit goods, and funds flowing to organized crime. These are the recognized problems of counterfeiting, which do not simply affect right holders and consumers, but entire nations and social activities.

3. How to prevent counterfeiting

It is imperative for corporations and their countermeasure policy makers to take a firm stand against producers and distributors of counterfeit goods and “never give in to counterfeit production and distribution”.

The problem of counterfeiting is not to be tackled by one measure alone. It is impossible to resolve this problem without public understanding of intellectual property rights, in addition to efforts by the government and corporations (right holder's).

Increasing public awareness that buying or selling counterfeit products is not good is very important, ergo, public understanding of intellectual property rights is very crucial. Therefore, it is equally critical for government, corporate and industrial groups to promote awareness of the intellectual property rights system.

However, there's a limit as to how effective an awareness campaign can be. There are generally two types of criminal counterfeiting activities. One is a lack of knowledge; they are not aware that copying intellectual property is a crime. The other is intentional; they do know copying intellectual property is a crime, however they do it anyway since it's an easy business in which to make a profit with relatively minimal risk of punishment. An awareness campaign will be effective for crimes related to lack of knowledge, but will not deter those intentionally committing counterfeiting crimes. For those willful offenders, it is imperative for law enforcement agencies such as Customs and the police to take an aggressive approach in dealing with counterfeiting issues, in addition to a system improvements such as strengthening punishment for intellectual property infringement cases. It is necessary to show the offenders that counterfeiting is never going to pay. Strengthening the enforcement is also an effective measure to let those uninformed know that violating intellectual property rights is indeed a crime.

Examples of Counterfeit Goods and Pirated Copies

Counterfeit Goods (Infringing Goods against Intellectual Property, such as Patents, Trademarks, etc.)



Pirated Copies (Infringing Goods against Copyrights)



Source: JETRO Bangkok and JETRO Beijing web sites

Chapter 2: Current Status of Damage Caused by Counterfeit Goods

1. Results of Enforcement by Japanese Customs

The number of cases of intellectual property infringing goods prohibited from entering the Japanese market by Japanese Customs in 2005 was 13,467 cases, and the number of items was about 1,097,000 pieces. Compared to the 2004 statistics, it is a 47.3% increase in the number of cases and a 5.8% increase in the number of articles. A noticeable feature of the items prohibited from import is that 97.9% of the total (13,228 cases) were related to Trademark violations such as famous brand names donned on handbags, followed by 1.3% (174 cases) relating to copyright violations such as popular characters used on cell phone straps. As for the number of articles suspended from being imported, 74.4% of the total (approx. 820,000 articles) were related to trademark violations, followed by 11% (120,000 articles) relating to copyrights violations, and 9.8% (approx. 110,000 articles) relating to design rights violations.

Compared to 2004, cases relating to trademark rights and copyrights increased by 1.5 as for the number of prohibited cases. As for the number of prohibited articles, items related to utility model rights went up dramatically, and items related to design rights increased by 1.7.

As for the number of prohibitions sorted by exporting regions, 6,278 cases (46.6% of the total) came from China, followed by 6,045 cases (44.9%) from South Korea, and 369 cases (2.7%) from Hong Kong.

Regarding the number of articles, 460,000 pieces (41.7 % of the total) were exported from South Korea, followed by 450,000 pieces (40.9%) from China, and 90,000 (8.3%) from Hong Kong.

Compared to 2004, the number of cases from China increased by about 1.9 times, and from South Korea 1.3 times. As for the number of articles prohibited entry, 1.8 times more came from Thailand.

Looking at the number of prohibited items sorted by types of goods, bags, such as handbags and wallets, accounted for 10,158 cases (53.5% of the total), followed by key holders accounting for 2,036 cases (10.7%), and clothing such as T-shirts and mufflers accounting for 1,615 cases (8.5%).

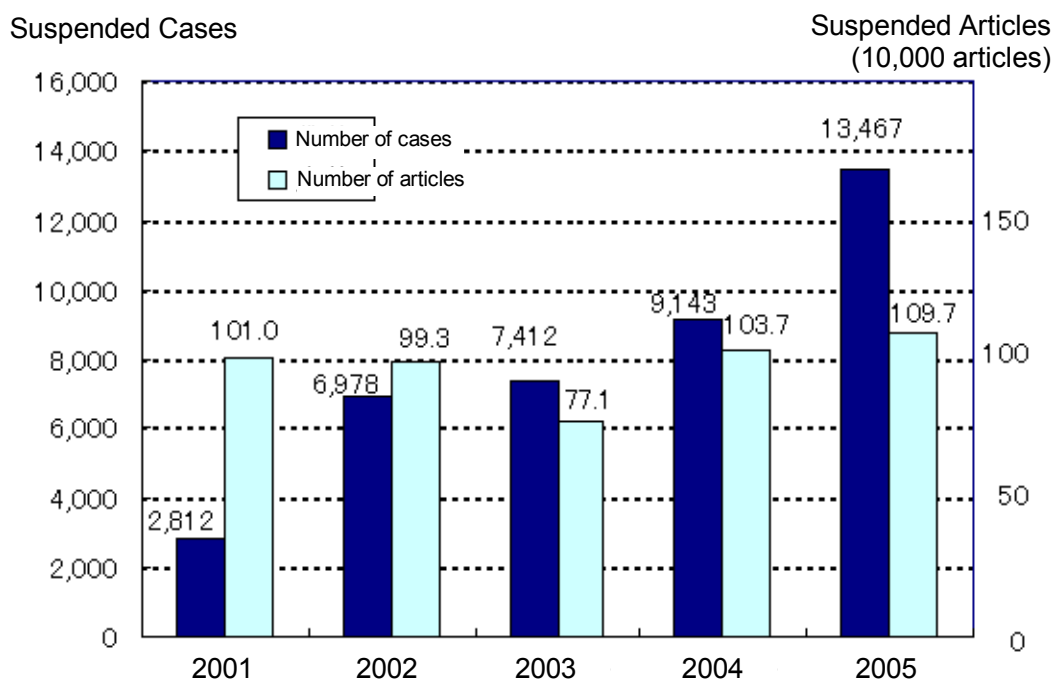
Regarding the number of articles, bags accounted for about 250, 000 pieces (23.1% of the total), followed by clothing which accounted for about 180,000 pieces (16.1%), and clothing fixtures such as fasteners accounting for about 80,000 articles (7.2%).

Compared to 2004, regarding the number of prohibited cases, belts and key holders increased by about 1.8 times, and bags increased by about 1.6 times. As for the number of articles, toys increased by about 4.7 times, and bags increased about 1.5 times.

Results of Import Prohibition by Customs Against Infringement of Intellectual Property Infringing Goods

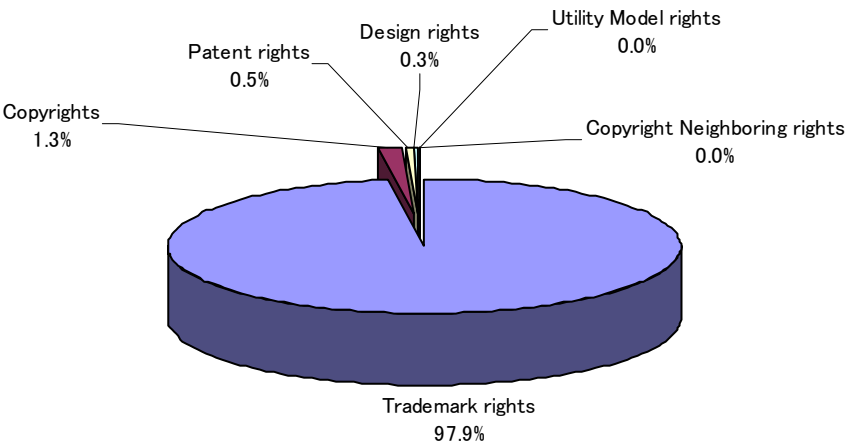
1: Result of Import Prohibition Against Infringement of Intellectual Property Infringing Goods

In 2005 the number of prohibitions of intellectual property infringing goods was 13,467 cases, which is a 47.3% increase compared to the previous year. As for the number of articles, there were 1,100,000 articles, a 5.8% increase compared to the previous year. Among them, the number of prohibited articles originating from China increased by about 1.9 times, and the ratio went up from 36.7% in the previous year to 46.6%.

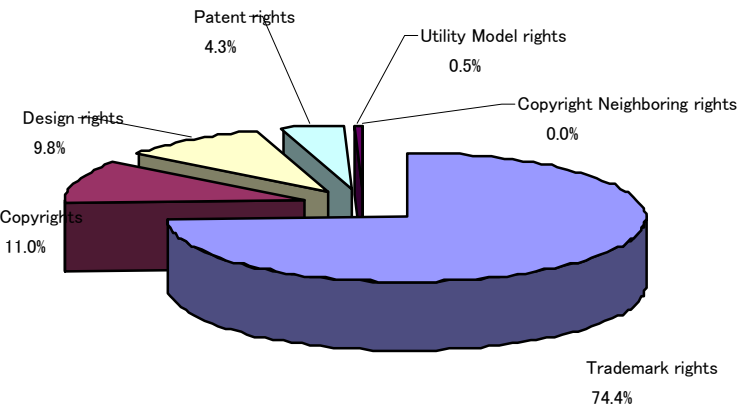


2: Results of Import Prohibition Sorted by Intellectual Property Category

**Comparison of Results by Intellectual Property
(based on number of cases)**

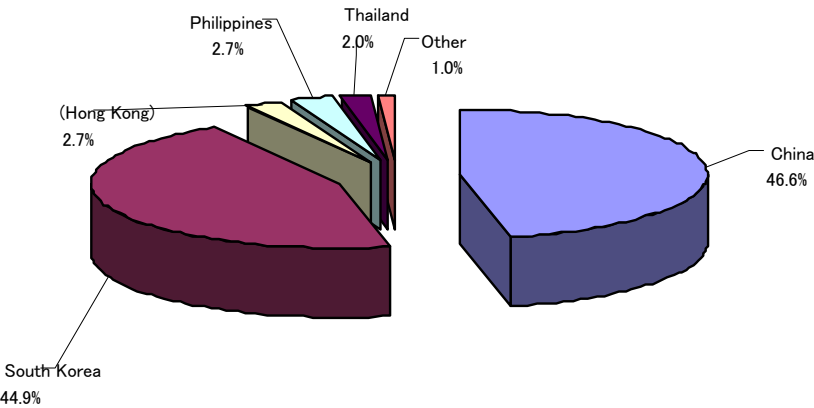


**Comparison of Results by Intellectual Property
(based on number of articles)**

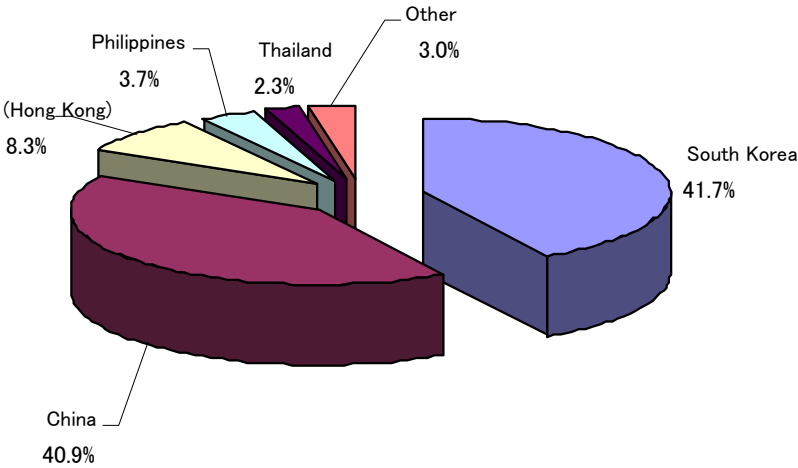


3: Results of Import Prohibition Sorted by Country of Origin

**Comparison of Results by Exporting Country (Region)
(based on number of cases)**

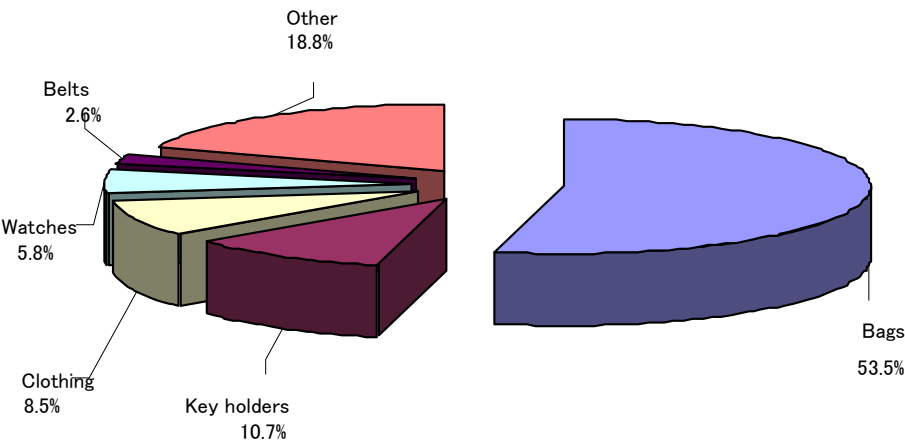


**Comparison of Results by Exporting Country (Region)
(based on number of articles)**

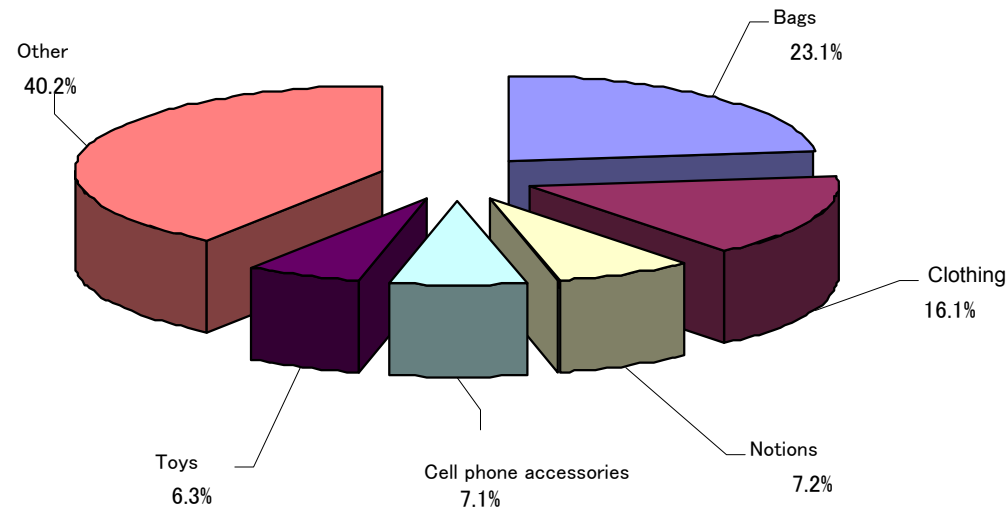


4: Results of Import Prohibition Sorted by Items

Comparison of Results by Item (based on number of cases)



Comparison of Results by Item (based on number of articles)



5: Results of Import Prohibition on Intellectual Property Infringing Goods

Upper row: number of cases Lower row: number of articles										
		2001	2002	2003	2004	2005	Comparison ratio with previous year	Component comparison ratio	2006 (Jan-Jun)	Comparison ratio with same period of previous year
Patent Rights		1	7	1	80	66	82.5%	0.5%	14	34.1%
		5,000	39,200	550	107,600	46,906	43.6%	4.3%	28,982	107.4%
Utility Model Rights		0	0	1	1	2	200.0%	0.0%	1	100.0%
		0	0	960	400	5,304	1326.0%	0.5%	4,896	168.6%
Design Rights		14	13	12	39	42	107.7%	0.3%	23	121.1%
		74,445	41,693	42,641	62,794	107,294	170.9%	9.8%	43,498	52.5%
Trademark Rights		2,727	6,859	7,332	8,922	13,228	148.3%	97.9%	8879	150.1%
		239,879	611,100	591,061	690,749	816,845	118.3%	74.4%	384,394	122.6%
Copy Rights		76	108	80	119	174	146.2%	1.3%	84	87.5%
		690,654	318,751	136,094	174,594	120,991	69.3%	11.0%	25,408	51.6%
Copyright Neighboring Rights		0	0	0	0	1	all increased	0.0%	1	all increased
		0	0	0	0	60	all increased	0.0%	9	all increased
Farmer's Rights		-	-	0	1	0	0.0%	0.0%	0	-
		-	-	0	860	0	0.0%	0.0%	0	-
Goods violating Unfair Competition Prevention Law	Products with confusing well known indication	-	-	-	-	-	-	-	0	-
		-	-	-	-	-	-	-	0	-
	Products abusive of famous indication	-	-	-	-	-	-	-	0	-
		-	-	-	-	-	-	-	0	-
	Shape imitating products	-	-	-	-	-	-	-	0	-
		-	-	-	-	-	-	-	0	-
Total		2,812	6,978	7,412	9,143	13,467	147.3%	100.0%	8,970	148.5%
		1,009,958	992,908	771,306	1,036,997	1,097,400	105.8%	100.0%	482,291	101.4%

(Note)

1. Number of cases and articles suspended by injunction in general cargo and postal matters.
2. Total number of cases per IP right will not match the grand total because some cases have multiple infringements.

6: Results of Import Prohibition of Intellectual Property Infringing Goods Sorted by Exporting Region

Upper row: number of cases
Lower row: number of articles

	2001	2002	2003	2004	2005	Comparison ratio with previous year	Component comparison ratio	2006 (Jan-Jun)	Comparison ratio with same period of previous year
China	202	552	1,630	3,358	6,278	187.0%	46.6%	3,407	103.7%
	383,332	534,495	395,265	434,980	448,680	103.1%	40.9%	182,425	83.8%
South Korea	2,177	5,334	4,505	4,598	6,045	131.5%	44.9%	5,027	237.5%
	128,609	231,149	240,393	381,371	458,143	120.1%	41.7%	232,688	134.5%
Hong Kong	231	476	615	423	369	87.2%	2.7%	135	66.8%
	426,582	77,587	58,997	142,414	91,223	64.1%	8.3%	28,455	125.2%
Philippines	48	140	299	387	365	94.3%	2.7%	191	88.4%
	16,186	54,503	28,402	37,840	40,974	108.3%	3.7%	10,304	29.0%
Thailand	68	242	199	220	272	123.6%	2.0%	129	89.6%
	6,077	33,825	9,823	13,939	25,633	183.9%	2.3%	19,573	131.8%
U. S. A.	9	23	25	30	38	126.7%	0.3%	20	80.0%
	315	1,695	1,009	3,702	2,057	55.6%	0.2%	1,693	148.6%
Taiwan	16	40	31	33	21	63.6%	0.2%	8	66.7%
	6,972	19,254	15,871	5,846	3,380	57.8%	0.3%	404	12.8%
Vietnam	2	13	24	15	15	100.0%	0.1%	11	137.5%
	11,000	4,190	1,780	1,316	616	46.8%	0.1%	4,994	1734.0%
Singapore	2	8	2	8	12	150.0%	0.1%	3	75.0%
	7,224	1,176	1,108	2,210	4,375	198.0%	0.4%	35	46.1%
Italy	37	110	24	16	11	68.8%	0.1%	5	62.5%
	17,643	17,019	592	743	535	72.0%	0.0%	230	76.7%
Country other than above	20	40	48	55	41	74.5%	0.3%	34	188.9%
	6,018	18,015	18,066	12,636	21,784	172.4%	2.0%	1,490	24.2%
Total	2,812	6,978	7,412	9,143	13,467	147.3%	100.0%	8,970	148.5%
	1,009,958	992,908	771,306	1,036,997	1,097,400	105.8%	100.0%	482,291	101.4%

(Note)

1. This table is based on the exporting country (region), NOT country (region) of origin

2. Number of cases and article are the record of general commercial cargo or international import postal matter cases relating to infringing goods

Source: 2005 Import Prohibition Status of Intellectual Property Infringing Goods
Customs and Tariff Bureau, Ministry of Finance

2. Results of Enforcement by Japanese Police

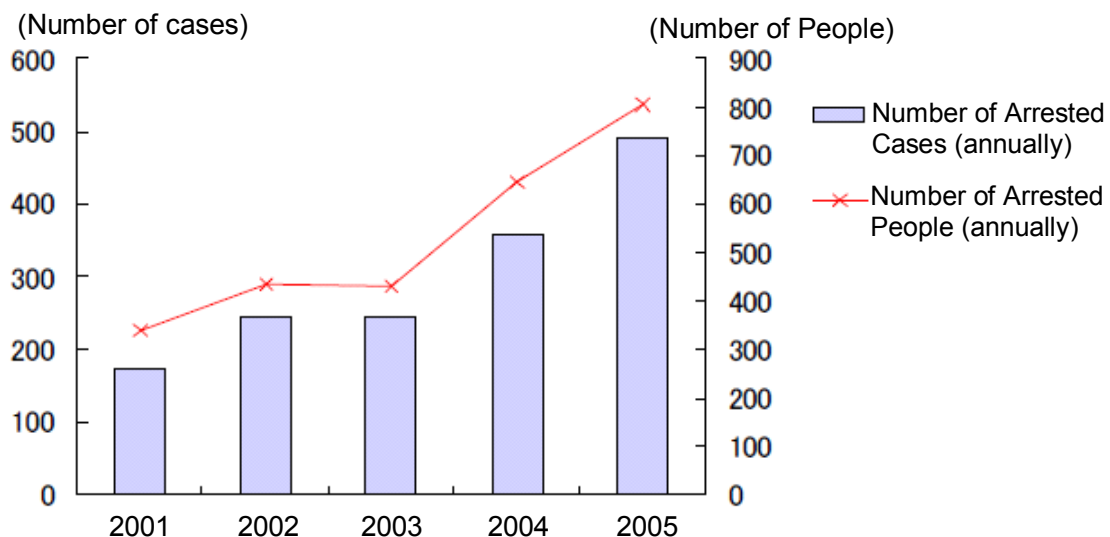
The number of criminal offenses infringing intellectual property reported by the Japanese Police has been notably increasing since 2002. In 2005 there were 492 cases of arrests and 805 offenders, both of which were the biggest numbers since statistics started being kept in 2002. Compared to the same period last year, 2006 stayed about the same.

In the case of trademark law violations regarding imitation brand products in 2005, 326 cases were charged, 551 offenders were arrested, and about 220,000 articles of imitation brand products were confiscated. Most of them account largely for sales of the imitation brand goods smuggled into Japan and there's no sign of any significant decline of crimes violating trademark law such as the illegal sale of imitation brand products by pin ball game prize merchandise wholesalers, or by street vendor groups operated by foreigners.

206 arrests were made for piracy offenses. There are also violation of copyright law and organized crime control laws surrounding the sale of pirated software using internet cafés, copyright law offenses relating to the sales of pirated computer software, illegal cable TV tuners through spam email, and sales offenses through internet auctions.

Results of Crackdowns by Police Regarding Intellectual Property (2001-2005)

1: Arrest status of intellectual property infringing offenders



2: Number of Confiscated Counterfeits

Items		2000	2001	2002	2003	2004
Fake Brand Products		202,524	*1) 1,923,163	65,361	95,617	143,228
Pirated Copies	Videos, DVDs, Software	5,659	4,899	2,951	55,937	16,601
	Foreign Movies	1,866	2,866	1,806	1,111	9,548
	Japanese Movies	3,793	1,973	710	50,325	6,247
	Others	0	60	435	4,501	806
	Computer Software	15,286	12,932	8,024	17,572	8,238
	Music CDs, Tapes	-	*2) -	2,931	7,460	933
Character Products		509	0	0	481	0
Other		130,035	10,635	62	3,978	7,698
Grand Total		354,013	1,951,629	79,329	177,067	176,698

*1) This dramatic increase is due in part to the arrest made in 2001 when 1,880,000 articles of mostly watch parts were confiscated.

*2) Music CDs and tapes are recorded in "Other" prior to 2001.

3: Arrest status of intellectual property infringement cases sorted by laws

Laws	Year		2000		2001		2002		2003		2004	
	Number of Cases/offenders		Cases	Offenders	Cases	Offenders	Cases	Offenders	Cases	Offenders	Cases	Offenders
Total			829	399	655	371	642	412	789	407	1,233	640
Trademark Law			504	252	417	253	476	287	542	271	910	479
Unfair Competition Prevention Law			19	8	40	17	15	5	15	20	7	1
Copyright Law			304	136	187	82	147	115	229	110	315	159
Patent Law			1	2	3	7	2	2	2	4	0	0
Design Law			0	0	7	10	2	3	0	0	1	1
Utility Model Law			1	1	1	2	0	0	1	2	0	0

4: Confiscation status of imitation brand products overseas sorted by exporting country

		2001	2002	2003	2004	2005
Number of Confiscated Imitation Brand Products		1,923,163	65,361	95,617	143,228	219,852
Identified Exporting Country	South Korea	16,571	21,044	54,015	96,572	98,436
	China	553	128	9,109	16,737	9,663
	Hong Kong	1,893,611	213	3,908	119	2,091
	Taiwan				153	32,258
	Indonesia		9,932			
	Malaysia			4,226		
	Thailand		394	52		332
	Italy		6			11,265
	Others	130	70		225	30
	Total	1,910,865	31,787	71,310	113,806	154,075

Source: "On Arrest Status of Major Community and Economic Offenses in first half, 2006",
 "To Eliminate Imitation Brand and Pirated Products," Police White Paper, National
 Police Agency, Community Safety Bureau

3. Survey by the Japan Patent Office

The Japan Patent Office conducted a survey of 8,000 groups, including Japanese companies and local governments, with regard to damage caused by counterfeit goods in order to grasp the extent of damage to Japanese companies abroad. The results of the survey is introduced here.

First of all, regarding where the counterfeit products are made, many of them (more than 90%) are produced in Asia, particularly in China (62.2%), Taiwan (24%), and South Korea (21.9%).

Regarding areas of sale and consumption, about 87% of the counterfeit goods are sold and consumed in Asia, including Japan, and about 15% (multiple answers) are in Europe and North America. In light of the results regarding area of production and the area of sale and consumption, it can be assumed that counterfeit products made in Asia, especially China, are circulated all over the world.

Categories of merchandise that suffered damage due to counterfeits are as follows;

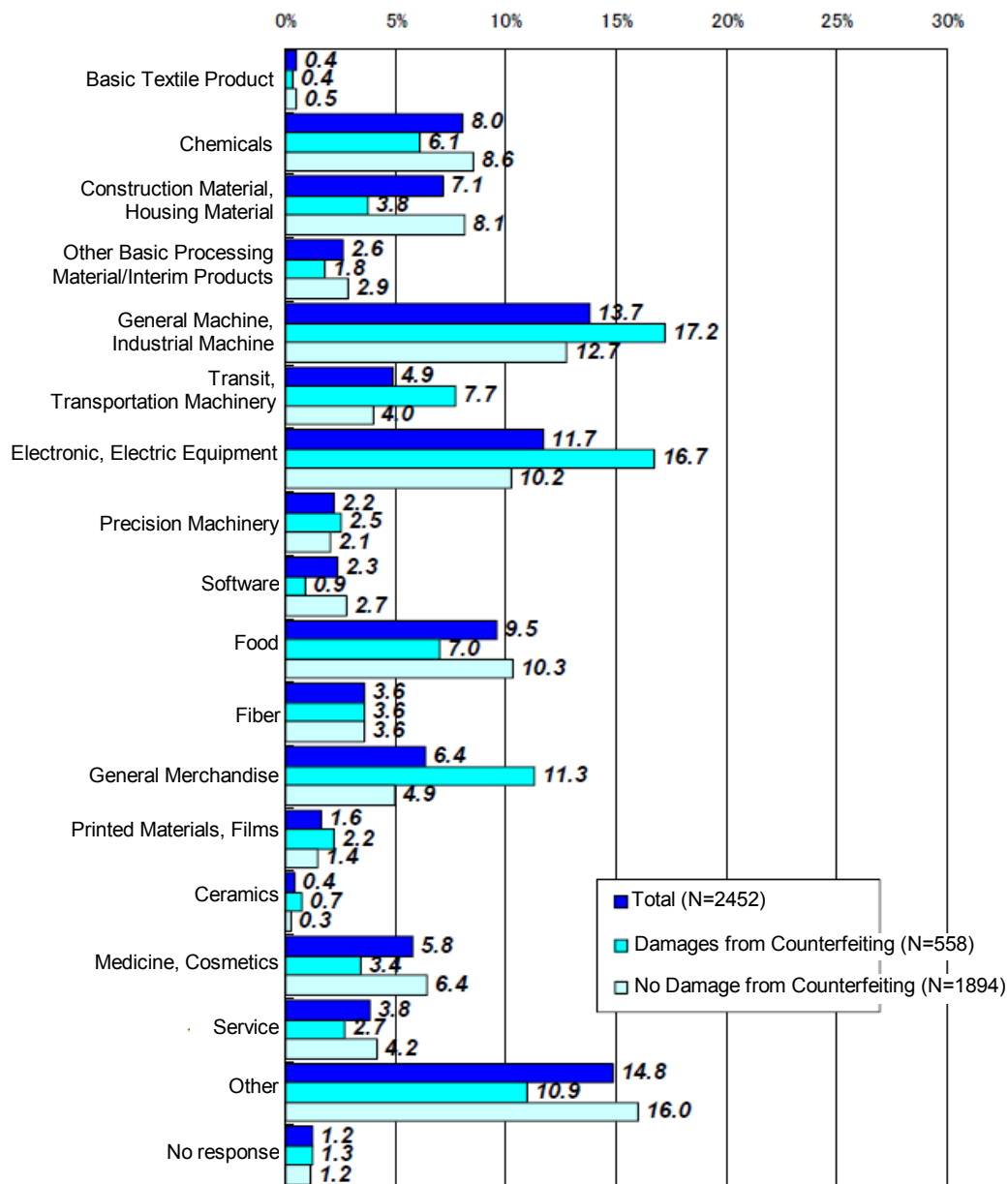
1. General machines and industrial machines, including measuring machines, sawing machines, and medical machines,
2. Electronic and electric machines, including audio equipment, computer equipment, and batteries.
3. Miscellaneous goods, including stationary, sports equipment, and toys.

As for the rights that are violated, trademark rights, design rights, patent, and utility model rights all account for about the same. However, it should be noted that patent and utility model rights are increasing in numbers recently. Compared to the survey results at Customs where prohibition results are mostly trademark and copyright violations, this is a completely different picture. It is only a natural tendency that violations that are easy to spot will be penalized at Customs. However, the recent trend that Patent and Utility Model rights violations are dramatically increasing in rate may indicate that the quality of counterfeit goods has improved, and it is shifting from simple copying of brand and design to highly technical and sophisticated imitation (which may not be detected at Customs).

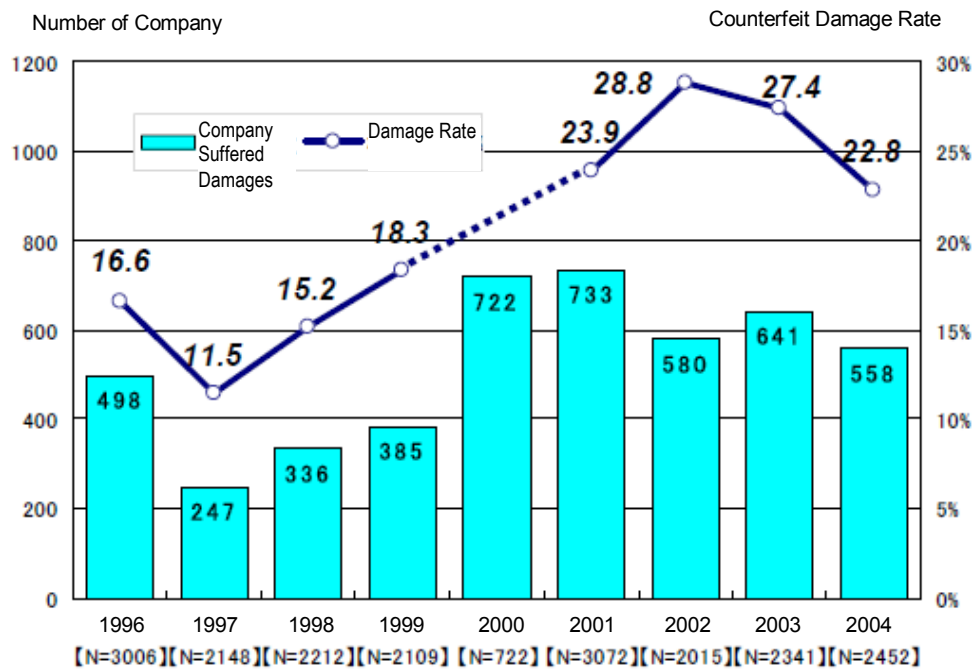
As for the quality of counterfeit goods, “quality almost comparable to the genuine products” accounts for 15.9%, and “quality somewhat less than the genuine products” accounts for 34.1%. Both together account for about 50%, which suggests that the difference in quality between the genuine products and the counterfeit products is getting closer and closer. In terms of embodiment, it is remarkable in Patent and Utility Model cases; “quality almost comparable to the genuine products” (21.4%), and “quality somewhat less than the genuine products” (40.2%), together account for more than 60%.

Overview of Counterfeiting Cases
Damage Suffered by Japanese Companies Abroad
(Results of survey conducted in 2005)

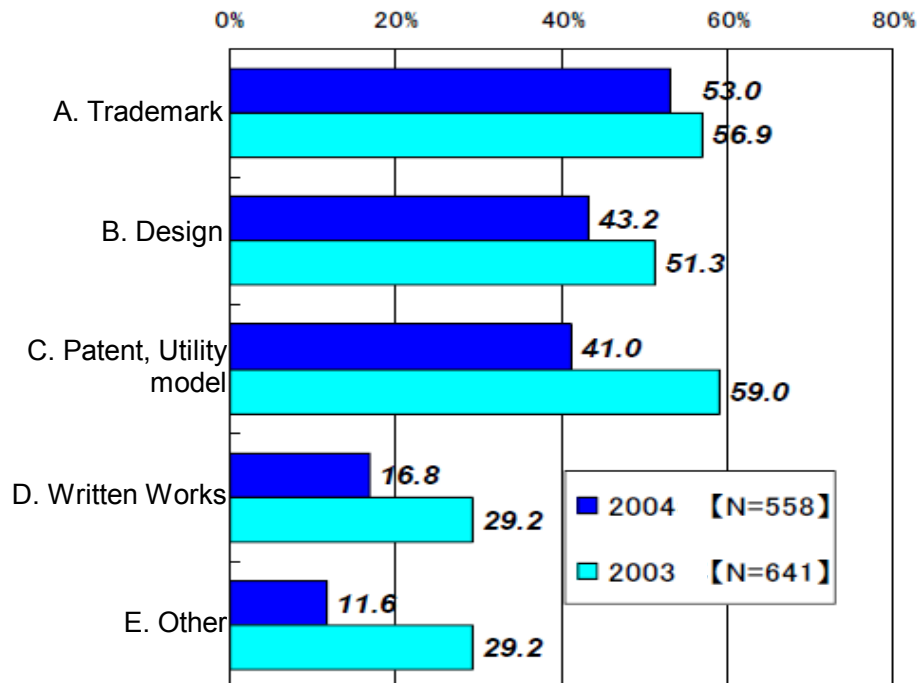
1: Business Categories



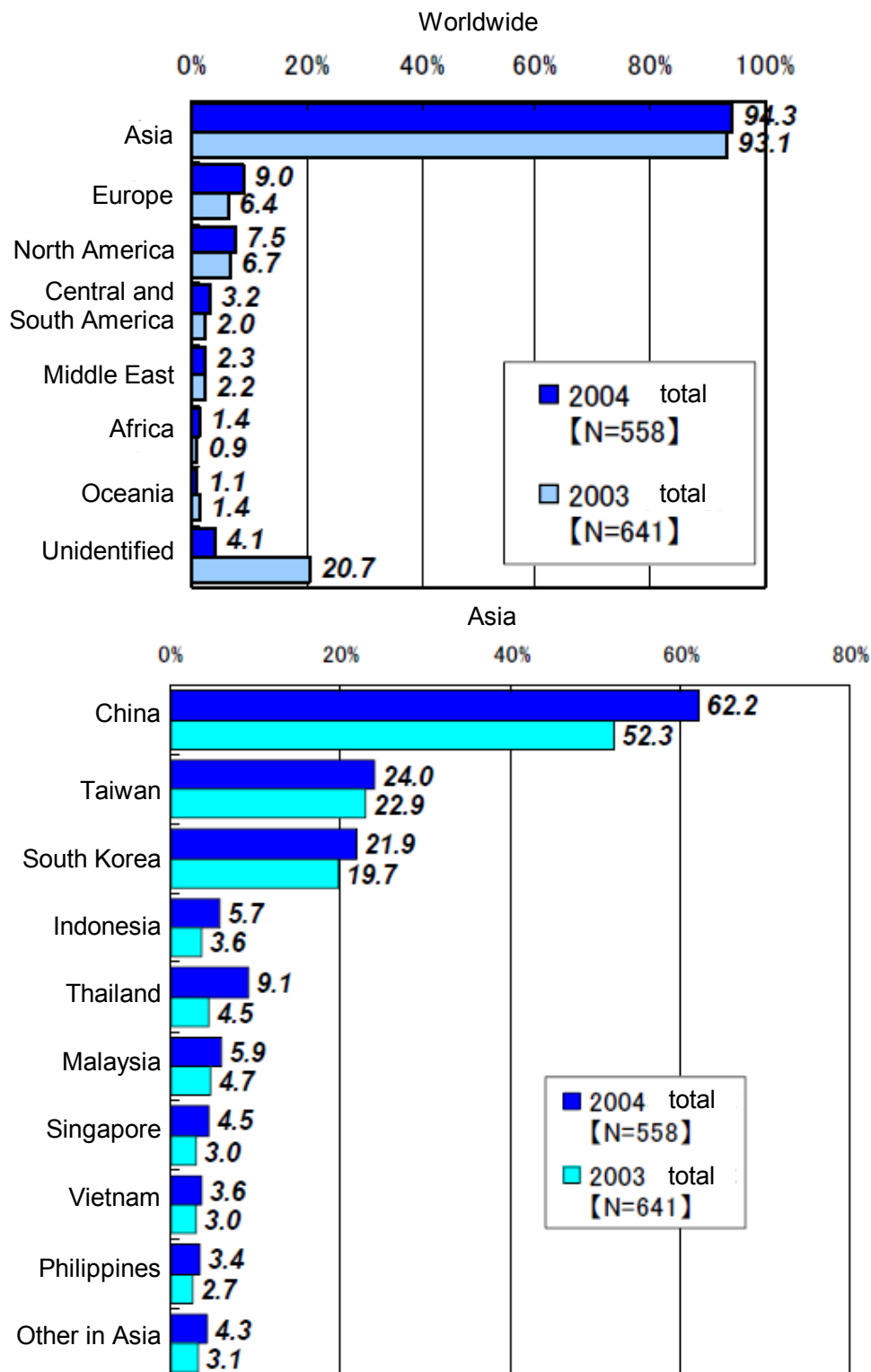
2: Companies suffering damage by counterfeiting



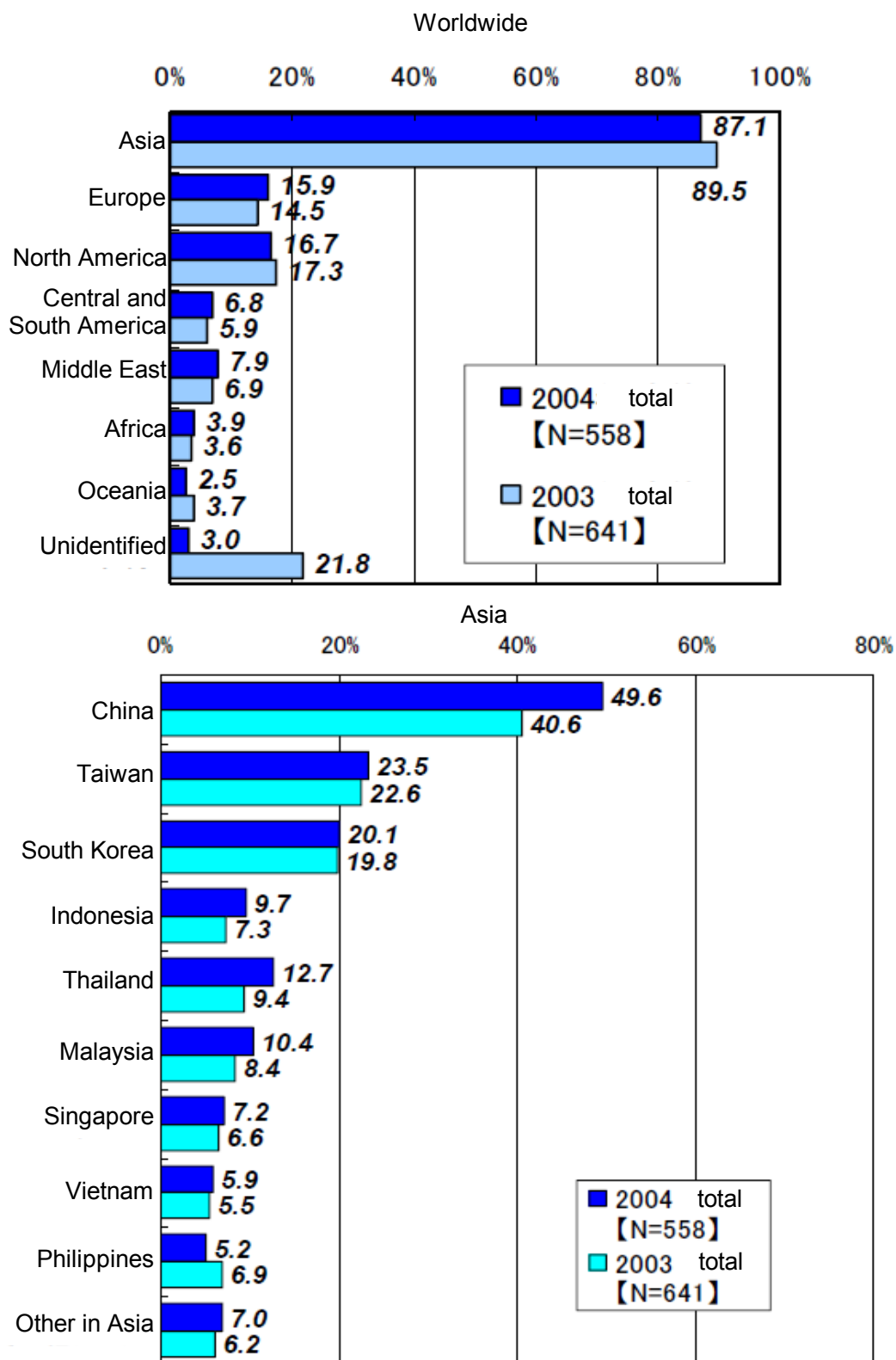
3: Forms of Rights Suffering Damage by Counterfeits



4: Region of Counterfeit Production



5: Region of Counterfeit Sales and Consumption



6. Quality of counterfeit goods

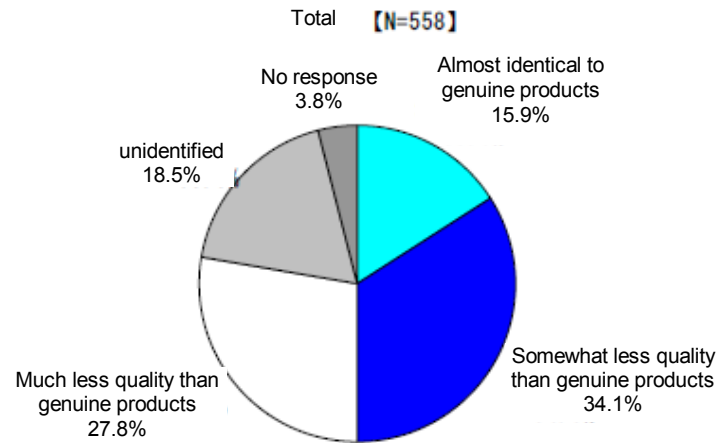
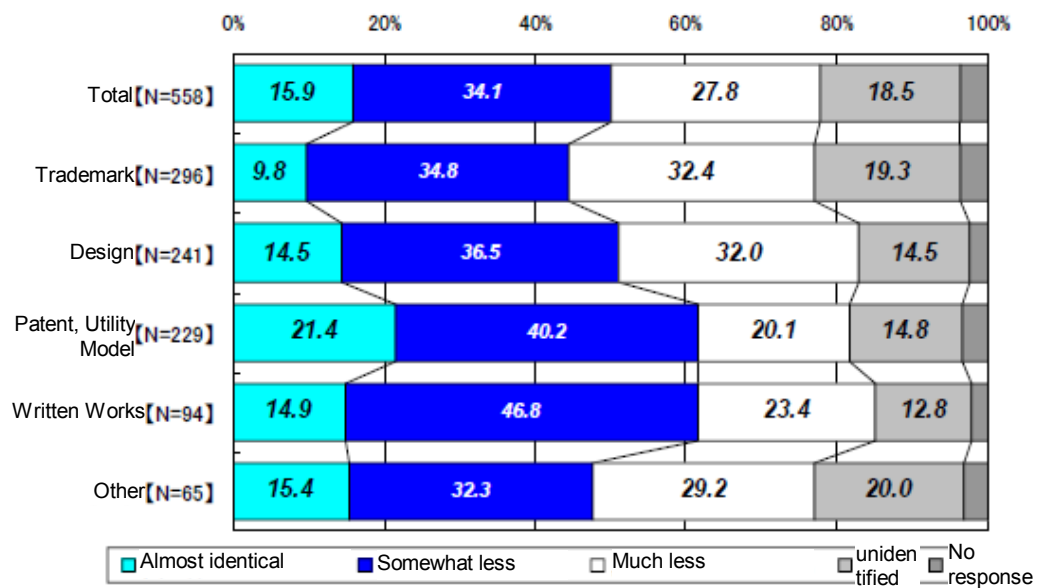


Chart 1-6-1-2 Quality of Counterfeits sorted by Infringed Form (Single Answer)



Source: 2005 Survey Report on the Damages Caused by Counterfeit Goods,
March 2006, Japan Patent Office

Chapter 3: Applicable Laws for Counterfeiting Enforcement

I. Applicable Law for Enforcement

Intellectual Property Rights that govern the control of counterfeit goods consist of Patent Rights, Utility Model Rights, Design Rights, Trademark Rights, Copyrights, Neighboring Rights, Rights of layout-designs of Integrated Circuits, the Unfair Competition Prevention Law, etc.

Outlines of the main articles of these Japanese laws are summarized below; however, the new Basic Law on Intellectual Property came into effect in November 2002 based on the Intellectual Property Strategy Guidelines established in July 2002. As a tangible measure, Promotion Program on the Creation, Protection and Exploitation of Intellectual Property was established and amendments relating to counterfeit goods and pirated copies were made. Major amendments were made to the Unfair Competition Prevention Law in 2005, and to the Customs Tariff Law that has been amended each year since 2003.

1-1. Trademark Law

Infringing trademark rights is defined as the “act of using another person’s registered trademark or a similar trademark to a designated good or similar good thereto by an unauthorized third party (Trademark Law Articles 25, 30 and 37) or a predetermined preliminary act directly connected to the above mentioned Act (Article 37).

- Article 25 (Effect of Trademark rights): Trademark right holder shall use registered trademark with respect to designated goods or services.
- Article 37 (Acts denoting infringement)
- Article 37-1: Act of using a trademark that is similar to another person’s registered trademark on a designated good, and using another person’s registered trademark or similar trademark on a similar good.
- Article 37-2: Act of possessing a product to which another person’s registered trademark or a similar trademark is attached, or a package thereof, for the purpose of assigning or transferring.
- Article 37-5: Act of possessing an indicator (a label, a collar label, etc.) indicating another person’s registered trademark or a similar trademark for one’s own use.
- Article 37-6: Act of assigning, transferring or possessing to assign or transfer an indicator (a label, a collar name label, etc.) indicating another person’s registered trademark or similar trademark thereto for the use of others.

- Article 37-7: Act of manufacturing or importing such indicator (a label, a collar name label, etc.) indicating another person's registered trademark or similar trademark for one's own use or for others to use.
- Article 37-8: Act of manufacturing, assigning, transferring or importing a device (die, metal cast, etc.) with the sole purpose of producing such indicators indicating other's registered trademark or similar trademark thereto.

1-2. Design Law

Infringing Design Law is defined or deemed as the "act of working another person's registered design or similar design by an unauthorized third party (Design Law, Articles 23 & 27), and the act of manufacturing as a business, assigning, importing, or offering to assign goods that are used exclusively for manufacturing goods with regard to a registered design or a similar design thereto."

- Article 23 (Effect of Design Right): A design right holder has the exclusive ownership of commercially working the registered design or similar design.

1-3. Patent and Utility Model Law

Infringing patent right (utility model right) is defined as the "act of working another person's patented invention (or registered utility model) as a business by an unauthorized third party." (Patent Law, Article 68, Utility Model Law, Article 16)

Furthermore, "acts of commercially manufacturing, assigning, importing or offering to assign, etc. (including displaying to assign, etc.) things exclusively used for the manufacturing of products related to the patent when the patent is about invention of product, things exclusively used for a process related to the patent in the case that the patent is about invention of process, and things that are exclusively used for manufacturing products related to the registered utility model" are deemed infringement of the Patent and Utility Model Laws. (Patent Law, Article 101, Utility Model law, Article 28).

1-4. Unfair Competition Prevention Law

60 years after its enactment in 1934, drastic amendments were made to the Unfair Competition Prevention Law in 1993, and further amendments were made in 2005.

A summary of the amendments is as follows:

1: The key points of the 1993 amendments

1) Expanded categories of unfair competition

- Act of using goods or other indication (trade name, trademark, container or package of goods, or any other indication used for the indication of goods or business) which is

identical to, or similar to, another person's goods or other indication as to be well-known, thereby causing confusion with another person's goods or business. (Unfair Competition Prevention Law, Article 2, Paragraph 1, Item 1)

- Act of using goods or other indication which is identical to, or similar to, another person's famous goods or other indication. (Article 2, Paragraph 1, Item 2)
- Act of assigning goods which were made by imitating the configuration of another person's goods (exclusively during the first 3 years from the date first commenced) (Article 2, Paragraph 1, Item 3)

2) Improvement on relief

As in the Patent Law, it provides provisions such as a presumption of the amount of damages that makes it easier to prove the amount of damages caused by unfair competition, which promoted proper remedy for the damages caused by unfair competition.

2: The key points of the 2005 amendments

1) Introduction of criminal punishment

- Introduced criminal punishment for act of using another person's famous goods and other indication with an intent to misuse (Article 2, Paragraph 1, Item 2)
- Introduced criminal punishment for act of copying another person's product form with an intent to misuse (Article 2, Paragraph 1, Item 3)

2) Review of penal threshold

To maintain a good balance with other IP penal provisions, the threshold of penal regulations was revised; imprisonment (not more than 5 years) or a fine (not more than 5 million yen for natural person or not more than 3 hundred million yen for legal entity) or both will be imposed.

3: Unfair Competition Prevention Structural Chart (the 2005 Amendments)

Systematic Chart of Unfair Competition Prevention Law

Prohibition of use for commercial purposes of insignia resembling flags etc., of foreign countries, coat of arms of foreign countries, insignia resembling that of foreign government, and emblems resembling international organizations. (Article 16 and 17), Prohibition of bribery of foreign public official (Article 18), Penalty for violation of order to maintain secrets (Article 21, Paragraph 2, (5)).			Unfair Competition (Article 2, Paragraph 1)																											
			Act of agents, etc., using trademarks without authorization	(15)	Act of circulating false allegations	(14)	Act of causing mistakes regarding place of origin, etc.	(13)	Act of use of domain name following improper acquisition	(12)	Acts of invalidating technical restriction on visual, audio, etc., equipment except for specific person	(11)	Acts of invalidating technical restriction on visual, audio, etc., equipment	(10)	Trade secrets	Act of using trade secrets in bad faith following improper disclosure and transfer in good faith	(9)	Act of transferring trade secrets in bad faith following improper disclosure	(8)	Act of using and disclosing trade secrets with improper purposes	(7)	Act of using trade secrets improperly following improper acquisition and transfer in good faith	(6)	Act of transferring trade secrets improperly following improper acquisition	(5)	Act of acquiring trade secrets by improper means	(4)	Act of imitating configuration of goods	(3)	Act of abusing famous marks
Prohibition of use for commercial purposes of insignia resembling flags etc., of foreign countries, coat of arms of foreign countries, insignia resembling that of foreign government, and emblems resembling international organizations. (Article 16 and 17), Prohibition of bribery of foreign public official (Article 18), Penalty for violation of order to maintain secrets (Article 21, Paragraph 2, (5)).			Exemptions (Article 19, Paragraph 1)																											
			(1) One's own personal name	(1) Common name (2) One's own personal name	(1) Common name	(7) Testing and research	(6) Use within the scope of legal title in good faith, not through gross negligence.	(5) (i) 3 years have elapsed, (ii) Person who obtained in good faith, not through gross negligence	(1) Common name, (2) One's own personal name, (3) Prior use	(1) Common name, (2) One's own personal name, (3) Prior use																				
			Right to demand indication to prevent confusion (Article 19, Paragraph 2)																											
			Right to Demand Injunction, Clear Indication of Specific Configuration, Order to Submit Documents (Article 3, 6, & 7)																											
			Right to demand compensation for damages, presumption of amount of damages, etc., calculation of damages, approval of reasonable amount of damages, etc. (Article 4, 5 to 9)																											
			Offense of False Indication	Offense of Causing to Mislead											Trade Secret Violation Type 6	Offense of Imitating Configuration	Offense of Abusing Famous Name	Offense of Causing to Confuse												
			Sanctions against Natural Person (Article 21)		Imprisonment with work for not more than five years or a fine not more than 5 million yen										Imprisonment with work for not more than 10 years or a fine not more than 10 million yen		Imprisonment with work for not more than five years or a fine not more than 5 million yen													
			Heavy Penalty on Legal Entity (a fine not more than 300 million yen) (Article 22)																											

Source: Outline, Unfair Competition Prevention Law, 4th edition, by Yamamoto Tsuneyuki

1-5. Copyright Law

Infringing Copyright Law is defined as the “act of using another person’s works by an unauthorized third party.” In addition, the following acts are deemed as substantially infringing rights such as copyrights:

- 1) Act of importing objects, for the purpose of distributing in this country, that were produced by acts which would constitute an infringement of copyright, etc., if they were made domestically at the time of import (Copyright law Article 113, Paragraph 1, Item 1)
- 2) Act of distributing or possessing to distribute an object made by an act of copyright infringement, etc., by a person who is aware of such infringement. (Article 113, Paragraph 1, Number 2)
- 3) An act of using in a business copies of works in a computer program that was made by an act of copyright infringement (only when a person using such copies is aware of such infringement at the time when he has acquired authority to use these copies). (Article 113, Paragraph 2)

2. Laws Relating to Import Enforcement

2-1. Customs Tariff Law

The Customs Tariff Law has been revised every year since 2003, and the key points are listed below;

1: The key points of amendments

- | | |
|-------|---|
| 1995: | Import injunction request system applied to trademark rights, copyrights, and neighboring rights. |
| 2003: | Import injunction request system applied to patent rights, utility model rights, and design rights. |
| 2004: | Implementation of a system to notify the right holder and the importer of the offender’s name when enforcement starts. |
| 2005: | Implementation of an Injunction system at customs to bar goods that use another person’s famous goods with illegal intention and copied product mode thereof. (Unfair Competition Prevention Law, Article 2, Paragraph 1, Item 2, and Article 2, Paragraph 1, Item 3) |
| 2006: | Controls to enforce export and transit of counterfeit goods and pirated copies. |

2: Customs Tariff Law

Article 21, Paragraph 1, Item 4: Goods infringing Patent rights, Utility Model rights, Design rights, Trademark rights, Copyrights, Neighboring rights or Circuit Layout rights, shall not be imported. In addition, any goods that violate the Unfair Competition Prevention Law, Article 2, Paragraph 1, Items 1, 2 or 3 shall not be imported.

2-2. Tariff Law

Article 109, Paragraph 1: An importer of goods infringing intellectual property rights shall be punished by imprisonment for not more than 5 years, by a fine of not more than 5 million yen, or both.

3. Laws Relating to Export Enforcement

3-1: Export Trade Control Order

In the attachment, item 44: A cargo that may violate Patent rights, Utility Model rights, Design rights, Trademark rights or Copyrights in a country of destination, or a cargo whose origin may be mislead or designated by the Minister of Economy, Trade and Industry shall be approved by the Minister of Economy, Trade and Industry.

3-2. Export and Import Transaction Law

- Article 3: Export trade of a cargo that shall infringe industrial property rights or copyright protected under the laws and regulations of a country of destination shall be deemed unlawful export transaction (Article 2); therefore it shall be prohibited.
- Article 4: In the event that a violation of Article 3 is discovered, the Ministry of Economy, Trade and Industry shall give a warning to such exporter.
- Article 4, Paragraph 2: In the event that the act of violation is deemed to cause tremendous damage to the international credibility of Japanese exporters, the Ministry of Economy, Trade and Industry may order the exporter to cease exportation of a cargo instead of the warning stipulated in the previous Article within one year, and with designated article and destination, except when said exporter proves that the violation is not intentional or through negligence.
- Article 42: An offender who violates an order or a disposition stipulated in Article 4, Paragraph 2, or Article 28, Paragraphs 1, 2 or 4, shall be punished by imprisonment of not more than 2 years, or by a fine of not more than one million yen.
- Article 5: An exporter may sign an agreement, which shall be filed within 10 days prior to the signing of the agreement with the Minister of Economy, Trade and Industry, on various items such as price, amount, quality, design, etc., in an export transaction of designated types of cargo that are shipped to designated destinations. In addition, in Article 11, Paragraph 2, the “Exporter’s Union” may provide regulations that the members will be required to abide by.
- Article 28, Paragraph 1: When it is determined that even with a design agreement or compliance provisions provided in Article 5 and Article 11, Paragraph 2, it’s difficult to

establish an order in export transactions or to eliminate extreme obstacles against sound development of exporting trade, an order of the Ministry of Economy, Trade and Industry can be issued to determine compliance provisions concerning trade conditions on design and such, in said export transaction of said cargo which is to be shipped to said designation.

- Article 28, Paragraph 2: In the event that issuing an order of the Ministry of Economy, Trade and Industry is deemed inappropriate, an exporter is required by government ordinance to be approved by the Minister of Economy, Trade and Industry regarding the trade condition of design, etc.

4. Summary of Procedures at Customs

4-1. Determination of Infringement Procedure

In the event that the Director General finds goods that are suspected of violating intellectual property rights such as trademark rights among cargo and foreign mail import declarations which were submitted, the procedure to determine whether or not said cargo infringes intellectual property rights shall be begun.

Specifically speaking, the importer who intends to import suspected cargo (cargo in question) and the right holder will receive a notification that the determination process will begin, and at the same time they will be informed of both the importer's and the right holder's names and addresses.

In addition, when there are documents such as a Declaration for Importation to be filed with Customs, or the producer of the contents of the cargo is clearly identified, the right holder will be informed of the name and the address of the producer.

Both the right holder and the importer shall file with customs their opinion and evidence regarding said cargo in question within 10 business days counting from the day following the date on the letter of notification informing them of the start of determination procedure.

The right holder who filed the request for import injunction and the importer may inspect said cargo in question by request.

A petitioner may also inspect a sample by request, provided she or he meets acceptance requirements and makes a deposit for sample inspection.

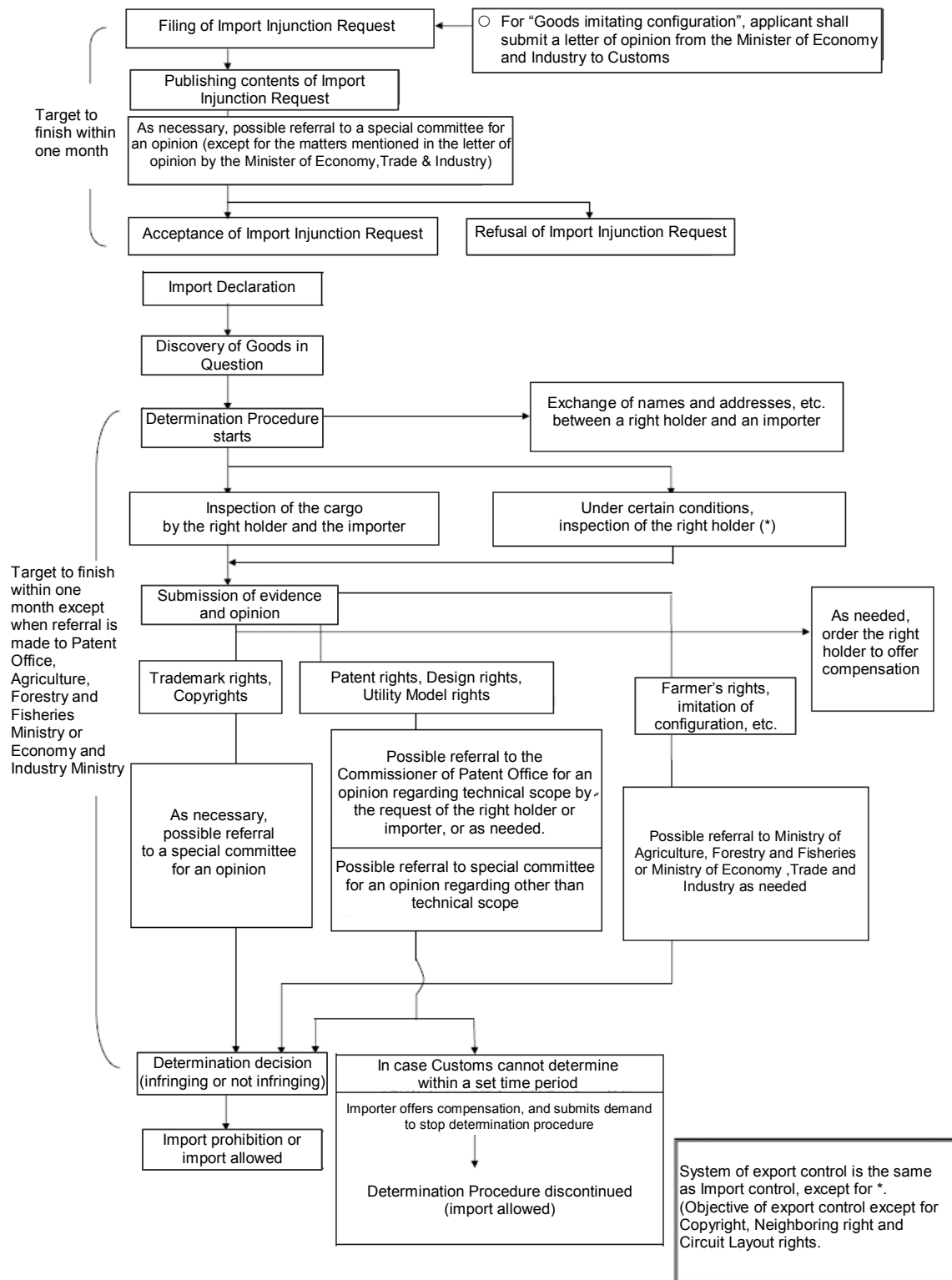
A right holder shall disclose as much as possible when presenting her/his opinion and evidence to an importer, and the importer shall also disclose to the right holder, and they shall seek rebuttal from each other.

Depending on the outcome, Customs will determine whether or not said cargo in question in fact infringes (the target is to reach a conclusion within one month).

As proof of the result, a “Determination Notice” will be issued to both the right holder and the importer.

In the event, during the determination process, the importer takes a voluntary action such as disposal or reduction of the cargo, the right holder shall be notified and the determination procedure will be discontinued.

Procedure to Determine Infringement



Source: Intellectual Property Infringing Products Border Control References,
2006 Intellectual Property Strategy Headquarters

4-2. Import Injunction Request System

Import Injunction Request refers to a system where an owner of an intellectual property right, such as a Patent right, Utility Model right, Design right, Trademark right, Copyright, Neighboring right, or Farmer's right can submit a request to the Director General of Customs to suspend import of the cargo in question and take a determination procedure when such cargo suspected of infringing his/her own rights is about to enter the country. Furthermore, a person requesting an unfair competition injunction alleging infringement on indication of products stipulated in the Unfair Competition Prevention Law, Article 2, Paragraph 1, Items 1 or 2, or configuration of goods in Item 3 of the same provision, shall be eligible to apply.

As for Circuit Layout rights, border control is conducted by an import injunction informant system.

When the request for import injunction is made by a right holder, the Director-General of Customs shall investigate whether there is enough evidence to substantiate the infringement allegation with regard to the particular import injunction. If the request is accepted, and alleged goods are discovered in cargo and/or foreign mail for which an import declaration was made, such goods shall be processed for determination of infringement.

This process is initiated by the request of the right holder to suspend importation, in addition to existing conventional ex officio border control.

The following are the five requirements for the request to be accepted.

- 1) An applicant is the owner of the right (intellectual property right holder, including a person requesting unfair competition injunction).
- 2) The right is valid. (request relating to the Unfair Competition Prevention Law will require a letter of opinion from the Minister of Economy, Trade and Industry.)
- 3) Infringement is a fact.
- 4) The infringing fact can be verified.
- 5) It can be identified by Customs

In order to request an import junction, designated request forms must be filled out and submitted to Customs with the following materials attached (9 sets required).

Required Documents

1. Request form (provided by Customs)
2. Copy of register and official gazette (* As for copyright and neighboring rights, provide a document to prove that the right was generated)
3. Any material to substantiate infringement allegation such as samples, photographs, etc. (method of identification) (* As for a case related to the Unfair Competition Prevention Law,

Article 2, Paragraph 1, Items 1, 2 or 3, and requesting an unfair competition injunction, provide a letter of opinion from the Minister of Economy, Trade and Industry)

4. Customs clearing fee estimation document (applicable only for patent, utility model, and design rights)

5. Power of Attorney (when an attorney performs the requesting procedure)

4-3. Injunction Deposit System

In the event that the Director General accepts the petition for import injunction, the cargo in question will be suspended, and an infringement determination process will take place. During the process, the cargo in question will be halted from importation and the importer will suffer such damages as expense for storing the cargo in a warehouse and lost revenue that would have been gained if the goods were distributed in the domestic market. If the import injunction was ordered based on false information by the proponent, thereby the petitioner's rights turn out not to be infringed, the petitioner's action will be deemed illegal.

In order to secure compensation for such damages, when it is determined necessary, the Director General may order the petitioner, within a limited time range, to deposit the appropriate amount of funds. This system is called the "Injunction Deposit System" (Customs Law, Article 69, Paragraph 12).

4-4. Goods deemed not infringing intellectual property rights

- 1) Articles not imported for commercial use
- 2) Articles imported with consent from a right holder
- 3) With regard to Circuit Layout rights, articles imported by a person either without knowledge or not responsible for negligence, of articles being counterfeit at the time when the semiconductor IC was delivered.
- 4) As for goods or indication to be protected, goods that constitute the acts listed under "Exemptions" of Unfair Competition Prevention Law, Article 19, Paragraph 1, Items 1 through 5.
- 5) Goods imported in parallel that are considered non-infringing Trademark rights, etc., when dealing with articles of parallel import.

* When a person who is not the owner of a trademark (or a person with consent from the right holder) intends to import articles bearing the same trademark as said trademark registered in Japan which was legitimately put on the market overseas, and when said person who lawfully put the trademark on the market and said trademark holder is either identical, or have a special connection so as to be

considered identical, said article is presently treated as a non-infringing article of parallel import.

5. Liability of an Infringer

A party who has committed infringement on intellectual property rights is in the position to be blamed for civil and criminal liability by a right holder.

Legal liabilities of a person dealing with counterfeit goods (unlawful goods)

1) Civil liability

- Right to demand injunction
- Right to demand compensation for damages
- Right to demand repayment of unfairly gained profits
- Right to demand measures for recovery of damaged reputation

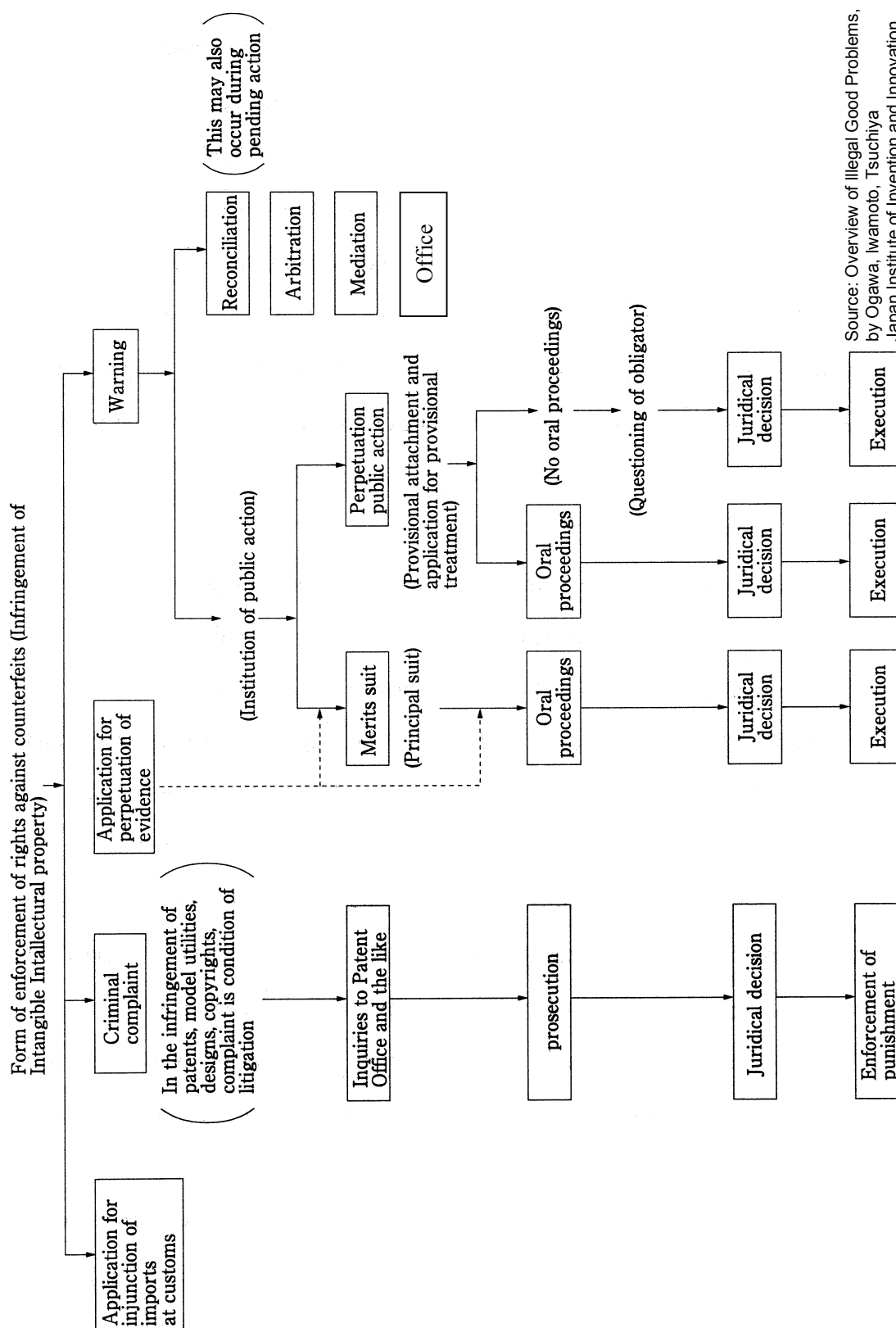
2) Criminal liability

- Criminal punishment (imprisonment or fine)

5-1. Forms of Exercising Rights

The following chart depicts possible avenues an IP right holder can take to enforce his/her rights. In order to challenge IP infringing goods (illegal articles), a right holder needs to consider whether to pursue Civil action or Criminal action. Criminal case approach has an immediate effect and acts as a deterrent to a repeat of infringement; however, if the maker of the illegal goods is a foreigner, it is necessary to examine whether or not police authority is ready to tackle the case, and if international cooperation in an investigation and information exchange is available.

Schematic View: Forms of Right Enforcement



Source: Overview of Illegal Good Problems,
by Ogawa, Iwamoto, Tsuchiya
Japan Institute of Invention and Innovation

(1) Criminal charges

i) An offense regarding infringement of patent rights, utility model rights, design rights, trademark rights, copyrights and unfair competition prevention rights is not the “crime subject to prosecution upon complaints.” Therefore prosecution thereof does not require accusations. In practice, however, in most cases investigation begins after a victim (a right holder) files a criminal complaint to an investigative authority (Code of Criminal Procedure, Article 230).

* This offense, “Crime subject to prosecution upon complaints,” is a crime which will not be able to institute prosecution (prosecute in a criminal trial) unless the victim makes an accusation.

ii) Criminal complains shall be made either in writing (a letter of complaint), or by parol to a prosecutor or a judicial police officer (normally in writing) (Code of Criminal Procedure, Article 241).

After criminal complaints are received, the judicial police shall immediately forward the documents and evidence thereof to the prosecutor. (Code of Criminal Procedure, Article 242).

iii) A letter of complaint shall include a description of intent and background thereof, and may be accompanied by supporting evidence such as a copy of the register of allegedly infringed intellectual property, physical infringing goods, genuine goods, the photographs thereof, and a written expert’s opinion on whether there is infringement.

iv) Investigative authorities often make reference to the Patent Office regarding matters on intellectual property rights, after the complaint is received and before the prosecutor files a suit.

Basic flow of the criminal suit procedure in a counterfeiting prosecution is illustrated in the following chart.

(2) Civil action

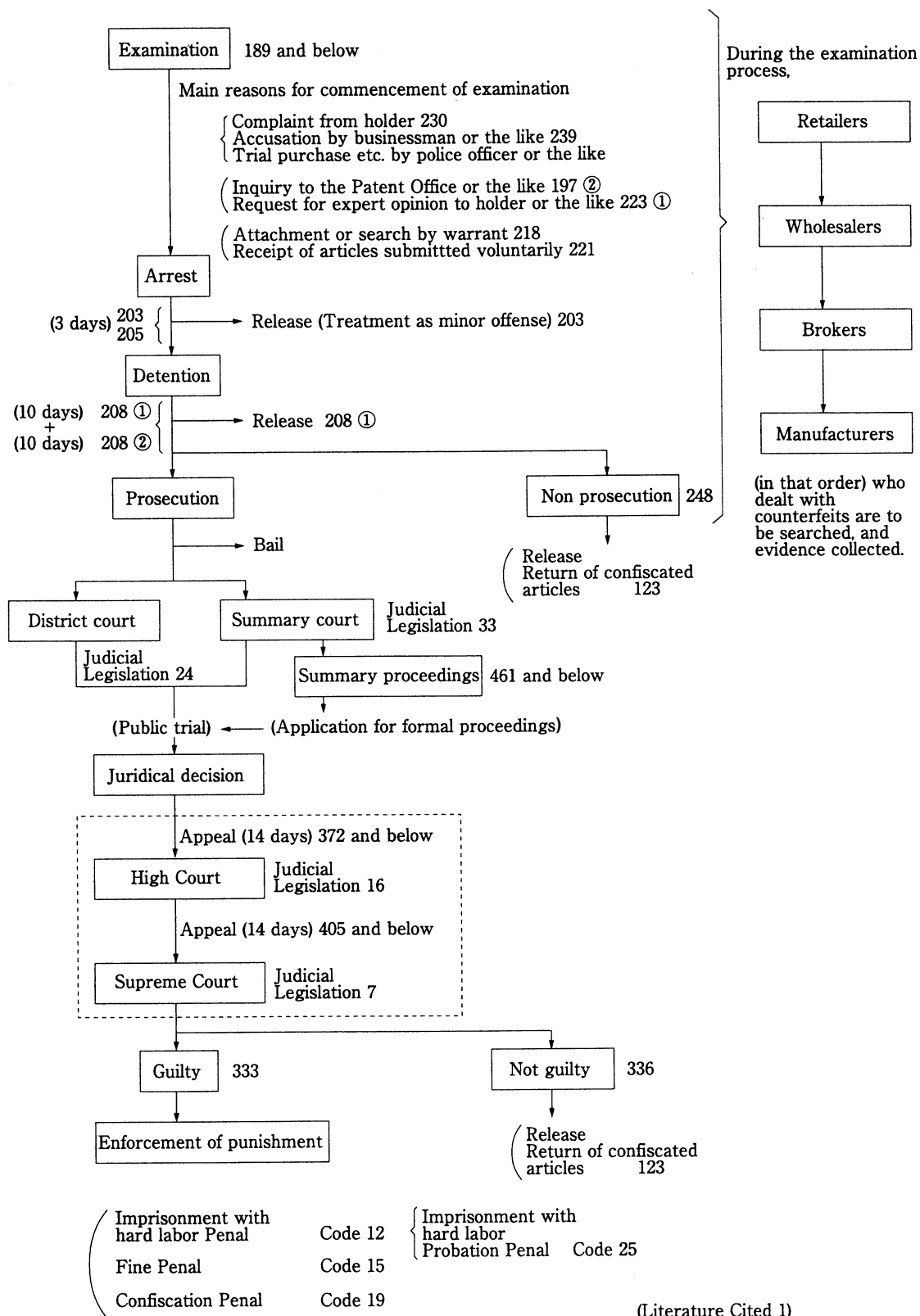
Normally, civil action includes demand of injunction, demand for compensation for damages, demand for compensation for unfair profits gained by the infringer, and demand for measures for recovery of reputation.

(3) Preservative Procedures

Available actions in intellectual property infringement cases are “provisional seizure” and “provisional injunction to seek for provisional capacity.” “Provisional seizure” refers to a tentative decision to withhold the infringer’s property (Code of Civil Preservative Procedures, Article 20, Paragraph 1), and “provisional injunction to seek for provisional capacity” refers to

a tentative decision in order to prevent a right holder from sustaining severe damage, or from being exposed to an imminent danger until a final court decision is issued (code of Civil Preservative Procedures, Article 23, Paragraph 2).

Basic Flow Chart of Criminal Suit Procedure



Source: Overview of Illegal Goods Problems, by Ogawa, Iwamoto, Tsuchiya
 Japan Institute of Invention and Innovation

Chapter 4: International Framework for Law Enforcement

1. Status of Global Damage Caused by Counterfeit Goods and Pirated Copies

It is difficult to estimate a correct amount of the damage caused by counterfeit goods and pirated copies; however, according to published data by OECD (Organization for Economic Co-operation and Development), illegal counterfeit and pirated goods account for 5 to 7 % of global trade. Based on the total value of international trade in 2004 published by the IMF (International Monetary Fund), which was US\$8.939 trillion, the damage amounted to about US\$450 billion to US\$620 billion.

In Europe, counterfeits and pirated copies confiscated at the borders in 2004 were up to 103,550,000 articles. In the US, damage to copyrights owned by US companies caused by pirated copies was estimated at US\$12,543,000,000.

2. Globalization of Crimes of Counterfeit Goods (including Pirated Copies)

In an environment of globalization and with the complication of counterfeit distribution channels and the emergence of high quality counterfeits using more advanced technology, it was found that in many cases production and sales of counterfeit goods are operated by international crime organizations. More importantly, the Intellectual Property Strategy Headquarters Task Force reports that illegitimate profits from the sale of counterfeit goods are becoming the source of terrorist activities.

It is a characteristic tendency of international crime organizations to migrate towards a country with lenient law enforcement. As for counterfeiting crimes, it is very likely that crime organizations are targeting countries that have a relaxed system and law enforcement on intellectual property as candidates for producing, transferring, and distributing counterfeit goods. For instance, EU countries trade pretty much freely among themselves, and counterfeits tend to enter into an EU country with lenient customs inspection from outside the EU.

As the economy is becoming borderless; so too is crime.

3. Treaties Regarding Enforcement Against Counterfeit Goods

3-1. Paris Convention regarding the Protection of Industrial Property Rights

Article 9 of the Paris Convention stipulates regulations against illegal attachment of trademarks and trade names to goods, seizure of counterfeits when they are imported,

enforcement of import prohibition and seizure of imported goods in the EU market. Article 9 states; “all goods unlawfully bearing a trademark or trade name shall be seized on importation into those countries of the Union where such mark or trade name is entitled to legal protection.” (Article 9, Paragraph 1). Since such “seizure” shall “take place at the request of the public prosecutor, or any other competent authority, or any interested party, in conformity with the domestic legislation of each country” (Paragraph 3), judgment on whether infringement has been committed, or remedy thereof shall be decided in compliance with domestic laws and regulations of the country of import.

Further, Article 9, Paragraph 6 continues; “if the legislation of a country permits neither seizure on importation, nor prohibition of importation, nor seizure inside the country, then, until such time as the legislation is modified accordingly, these measures shall be replaced by the actions and remedies available in such cases to nationals under the law of such country,” which means that the provision of sanctions in Article 9 does not regard sanctions against counterfeits at the time of import as a direct obligation under the Convention.

In fact, some of the countries do not take such domestic measures provided for in the Convention; and therefore the current Paris Convention may not present a sufficient framework in order to keep counterfeit trading in check.

3-2. Berne Convention On Literary and Artistic Works

Article 16, paragraph 1 of the Berne Convention states; “infringing copies of a work shall be liable to seizure in any country of the Union where the work enjoys legal protection.” Also, in paragraph 2 it continues; “the provisions of the preceding paragraph shall also apply to reproductions coming from a country where the work is not protected, or has ceased to be protected,” which suggests that an author shall enforce seizure.

On the other hand, Article 16, Paragraph 3 states, “the seizure shall take place in accordance with the legislation of each country,” which means that it is up to the independent decision of each member country as to how the seizure is processed.

3-3. Agreements on Trade Related Aspect of Intellectual Property Rights

(1) Establishment of the World Trade Organization (WTO)

The Uruguay Round that launched in September 1986, after seven and a half years of negotiations, adopted its Final Act in April 1994 in Marrakesh, Morocco, which compiled the Marrakesh Agreements (WTO Agreement) which established the World Trade Organization and the results of the Uruguay Round. Japan signed and issued the agreement in December 1995. This WTO Agreement includes Trade-Related Aspects of Intellectual

Property Rights (hereafter the “TRIPS Agreement”) which provides for international regulations on intellectual property rights.

(2) Overview of the TRIPS Agreement

TRIPS Agreement stipulates principles and provisions of trade related aspect of intellectual property rights in order to promote protection of intellectual property, and also to prevent measures and procedures of exercising the rights from impeding trade. Further, it provides regulations on enforcement of the rights, and that a violation of the rights may be resolved by WTO's procedures for settling disputes.

(3) Enforcement of rights under the TRIPS Agreement

Part III (Articles 41 through 61) of the TRIPS Agreement regulates judiciary and administrative procedures, and matters related to enforcement of intellectual property such as border control, etc., in order to take effective measures against infringement of intellectual property rights. Previous intellectual property agreements did not contain any provisions on enforcement of rights; however, for the first time the TRIPS Agreement manifested such international regulations.

First of all, Article 41 stipulates, as a general obligation, that enforcement measures for intellectual property shall be guaranteed under domestic laws, such measures shall be fair and equitable, and also that any decisions shall be made based on evidence that all parties concerned had a chance to express opinions on.

Next, Articles 51 through 60 cover border measures such as: i) request for import injunction system for the right holder of trademark or copyright (incl. copyright neighboring law); ii) infringement determination procedure such as injunction notice to importers and right holders; iii) giving right of authority to order an applicant to make a security deposit so as to protect the importer and to prevent abuse of the import injunction request system.

3-4. Overview of Border Measures under the TRIPS Agreement

(1) Border control measures (infringement determination procedure, etc.)

i) An importer and an applicant shall be promptly notified of the suspension of release of goods (import injunction for determining whether or not rights infringement exists). (TRIPS Agreement, Article 54)

ii) The duly empowered authority will conduct a review where all parties' opinions will be heard upon request of the importer whose goods have been suspended. (Article 55)

iii) With regard to border measures initiated by the request for import injunction, competent authorities are provided with the authority to give both a right holder and an importer opportunities to have the detained goods inspected. If a positive result is found, a member country may provide the competent authorities with the authority to inform the right holder of

the names and addresses of the consigner, the importer and the consignee and of the quantity of the goods in question. (Article 57)

iv) Competent authorities shall have the authority to order the destruction or disposal of infringing goods. Regarding unlawful trademark goods, the authorities shall not allow the re-exportation of the infringing goods in an unaltered state, or subject them to a different customs procedure other than in exceptional circumstances. (Article 59)

(2) Importation Injunction Request System by a Right Holder

i) Trademark right holders and copyright holders (including neighboring right holder) shall file an application with Customs for an injunction with respect to goods that infringe their rights. (Article 51)

ii) An applicant shall be required to provide adequate evidence to satisfy the competent authorities that there is an infringement of right when applying for import injunction. (Article 52).

iii) Competent authorities shall inform an applicant whether the request was accepted or not, and if accepted, the period for which Customs authorities will take action. (Article 52)

(3) Security Deposit System

Competent authorities shall have the authority to require an applicant to provide a security or equivalent assurance sufficient to protect the importer and the competent authorities and to prevent abuse. (Article 53)

4. A Way Forward of International Legislative Framework

Guidelines endorsed by the APEC (Asia-Pacific Economic Cooperation)

The APEC Guidelines is one of the model guidelines suggested in “The APEC Anti-Counterfeiting and Piracy Measures Initiative” published in 2005. This initiative includes: (1) Cooperation in obstructing transaction of counterfeit and pirated copies, online piracy, and eventually eliminating counterfeiting and piracy; (2) member country’s stronger capacity building in order to enforce strict measures on counterfeiting and piracy. Thus it suggests designing a model guideline as a concrete measure.

The Japanese Government’s proposal: “The Anti-Proliferation Pact Regarding Counterfeiting and Piracy”

The Japanese government had proposed at the Glenn Eagles Summit, “The Anti-Proliferation Pact for Counterfeiting & Piracy” and confirmed that countermeasures to counterfeiting and piracy problems need to be promoted as a way forward within an

international legislative framework, and efforts leading up to the signing of the treaty have already started.

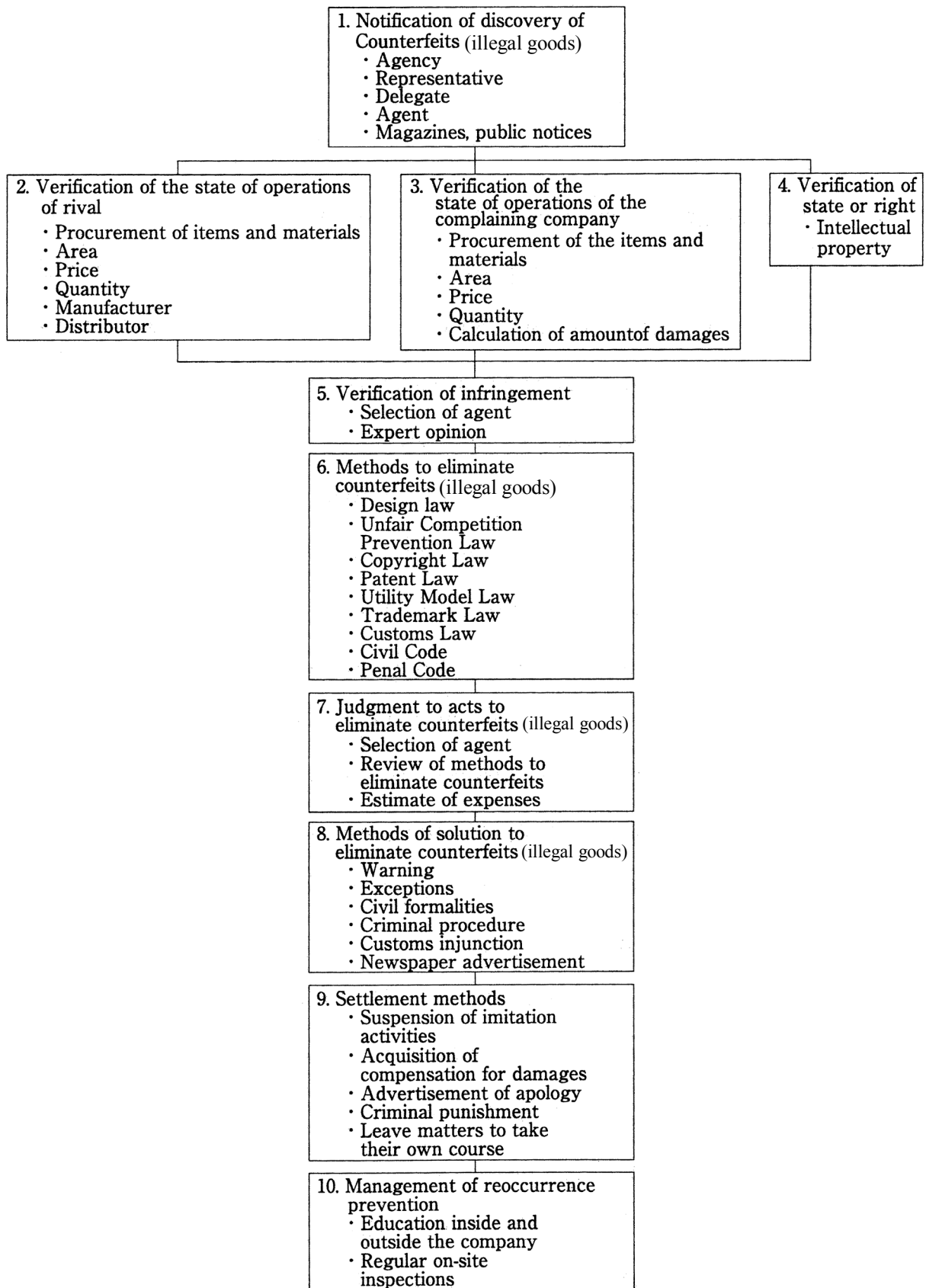
The major purpose of the proposed treaty is to prevent counterfeit products and pirated copies from 3 different standpoints; production, distribution and consumption. As concrete measures, a ban on exportation of counterfeit and pirated products, prohibition of personal importation, confiscation at the border, etc., are being considered.

Chapter 5: Countermeasures to Counterfeit Goods (Illegal Goods)

1. Eliminating Counterfeit Goods (Illegal Goods)

The most effective way to prevent companies' registered trademarks, designs and patents from being unlawfully copied is to secure the IP rights by filing an application in the target country as soon as possible. According to Beijing JETRO, many Japanese companies used to have a hard time fighting counterfeits simply because they did not obtain intellectual property rights in the country.

It is also important to keep counterfeiting in check, and as soon as it is discovered, to wipe it out completely by lawful measures. A summary of the steps to eliminate counterfeiting is shown below.



2. Countermeasures to Counterfeiting by the Private Sector

Japanese companies, industry, and industry groups are each conducting their own independent measures against counterfeits, and although the details are not disclosed out of concern of giving away useful information to the offenders, some of the company and association's countermeasures are made known on their web sites and through seminars, which are introduced below.

2-1. Example of Counterfeit Countermeasures by Companies

(1) Japan Louis Vuitton Corporation (LVJ Group Co., Ltd.)

Most so-called imitation brand products infringing the trademarks of upscale brand name goods from Europe and the US distributed in Japan are made in South Korea and China. Japan is a big market for imitation brand products; this does not mean Japanese are crazy about them, but they turn out be selling very well in Japan. Their sales tactics have become more ingenious, larger in scale, better organized, and deeply connected to crime organizations. Recently there have been an increasing number of incidents using Internet auction sites where imitation brand products are mailed directly to the winning bidder in Japan from overseas.

Louis Vuitton Corporation, suffering extensive damage from these counterfeits, takes border measures first by an injunction at Customs of the imitation products made in South Korea and China mentioned above. Most of them enter Japan as international postal packages at the post office, where Louis Vuitton would go and inspect them. As for goods that have already entered Japan, charging a criminal offense is one method of control. Since many of the counterfeit dealers are involved in organized crime, having to depend on law enforcement seems to be the only current solution. In a civil procedure, damages will not be recouped through a civil procedure in the Japanese judicial system, however it is necessary to take an aggressive attitude with a determination to protect the brand and business.

In overseas settings, the laws of the country where the counterfeits are produced will be applied for the enforcement. For instance, under local and national laws, factories manufacturing imitation brand goods are being raided, and in China goods are being suspended from exportation at Customs.

(2) Bandai Incorporated

The base for counterfeit toy production is concentrated on the Zhu Jian Delta in Guang Dong Province, and many of the counterfeits made there are released into circulation via wholesalers in Guangzhou to Shanghai, Hong Kong, South East Asia, etc.

Dealing with counterfeits and pirated products goes beyond the framework of intellectual property practice, which is also a big challenge in the business strategies at Bandai. As previously mentioned, many of the counterfeits and pirated copies are made in Asian countries; however the distribution of these unlawful products are reaching all over the world. According to their own survey, they have suffered damages in the amount of 12 billion yen as of 2002.

In addition to direct damage to the business, the emergence of counterfeit problems is violating the rights of copyrighted characters, etc. Above all, such imitation cannot be ignored from the point of view of consumer protection.

Bandai is exercising aggressive enforcement of rights against the distribution of counterfeits and pirated copies, and intending to take a fundamental approach to stop the problems at the root, such as encouraging local authorities to crack down on manufacturing factories.

As for China, they have been improving cooperative relationships with toy makers such as Bandai as well as Japanese companies from other sectors that are expanding into the Chinese market, and have also participated in a “Government-Private Joint Mission to China.”

The latest counterfeiting is getting trickier. Even though the registered trademark is intentionally not used, design of some imitations on the market look exactly like that of the genuine goods.



(C) SOTSU AGENCY · SUNRISE

Imitation (left) and original (right) of plastic models. “Mobile Suit Gundam” that are popular in China

(3) Seiko Epson

Approximately 80 % of the counterfeits of their products, which are toners and ink cartridges, are made in China. It is difficult to expose or bring charges against the dealers since their counterfeiting operations are divided up annually, many are controlled by crime syndicates, and their counterfeit businesses are very small which enables them to appear and disappear easily.

Since imitations not only rob the maker of profit, but the low quality of the product also may bring down the image of the brand, Seiko Epson cannot afford to ignore such counterfeiting. And the situation is becoming much more serious. For example, the cause of the problem in 80% of the printers that broke down was due to imitation ink cartridges that were installed.

Seiko Epson launched their countermeasures to counterfeits project team in 2002, and has been trying to protect its own business profits through efforts of its own. The core of their strategy is to “attack at the roots.” No problem will be solved by randomly attacking the tiny pirate copy business owners like in the “whack-a-mole” game. The most important thing is to safeguard profits and the safety of the users.

In 2003 Seiko Epson started “The Customs Education Activities” at 11 Customs locations in China, the first time for a Japanese business to take this approach. Enforcement inside China wouldn’t mean anything if the goods slip through Customs. Seiko Epson has been conducting Customs educational programs, creating an original “handbook,” and working side by side with individuals giving careful and thorough explanations. They believe the results of these programs have avoided some 1 billion yen worth of damages. In the future, they believe it’s necessary to unite in the resolve against counterfeiting problems with the industry and the government, and not depend only on the efforts of one private enterprise.

2-2. Countermeasures by Industry and Industrial Associations

(1) The Japan Bearing Industry Association

The Japan Bearing Industry Association was established in 1963, and since then it has been engaged in a variety of activities seeking to promote steady and sound growth of the bearing industry. Recently it has become a serious issue that imitation bearings are circulating in the global market in areas such as Asia the and Middle East. Obviously, imitation bearings violates intellectual property rights, but even worse, vehicles such as bicycles and automobiles using imitations, because of their inferior quality, may have an increased possibility of getting into an accident which may endanger the individual, causing injury and even death.

After the Association founded a special committee in 1999, it has been promoting countermeasure activities focused on detection of counterfeiting activities in China by dispatching 5 separate missions to China since 2000 with support from the official agencies such as the Japanese government and JETRO, and seeking assistance from the Chinese government.

In 2004, with the support from the Japan Patent Office and JETRO, a workshop was offered to Chinese Customs General Administration employees on how to judge authenticity jointly presented by the Japanese Industry Associations and the Chinese Customs General Administration.

Despite all of these efforts, however, large quantities of imitation bearings are still being distributed worldwide. In order to strengthen countermeasures against imitation bearings in the importing countries, JBIA established a ASEAN sub committee under the special committee and sent a mission to Thailand, which is believed to have the worst violation rate among ASEAN members, and laid the foundation for further activities. Immediately after this mission, imitation bearings were detected at Thai Customs.

(2) All Japan Stationary Association

Established as a voluntary organization in 1988 and incorporated in 1991, the All Japan Stationary Association has been conducting various endeavors to enhance the steady growth and advancement of the stationary industry. Among the activities, protecting intellectual property has been its focus and core since its inception, and in 1990 the intellectual property committee was established to tackle the counterfeit problems in Japan and abroad.

Imitations and copies of Japanese products are ubiquitous mainly in Asian countries, and the stationary industry is not an exception to sustaining increased damages from infringement of intellectual property rights by such products. If it's left untreated, the production and distribution of imitations and pirated copies are expected to lead to loss of potential market and the deteriorated image of brands, which will have a severe impact on business activities. In recent years, imitation stationary products, such as writing instruments and binders that have copied registered trademarks and designs that belong to member companies, are circulating worldwide, especially in Asia and the Middle East, and it has become a serious problem.

The Association organized a negotiation mission to China and made visits to the official agencies in Beijing and Shanghai. In this mission the team called upon the Chinese Writing Association, and exchanged sincere opinions regarding current conditions of imitation and copied goods and countermeasures against them, and as a result a "joint

statement” was announced between the Japan Writing Instruments Manufacturers Association and the China Writing Instrument Association, which was signed by all.

In addition, the association sets up a booth and has a display called “genuine product and imitation” to demonstrate the current status of imitation violations at the International Stationary and Office Product Fair held in Tokyo every year, and also organize seminars and panel discussions on counterfeits. The panelists introduce concrete measures against imitation products, as well as announce a joint statement about suggested preventative measures.

(3) Japan Business Machine and Information System Industries Association (JBMIA)

Japan Business Machine and Information System Industries Association (JBMIA), which was formerly Japan Business Machine Makers Association (JBMA) established in 1960, officially changed its name in 2002. JBMIA suggests a new concept called UC (Ubiquitous Collaboration) to replace Office Automation, which they are trying to spread the word of throughout society, thereby contributing to manifestation and utilization of intelligence through information technology in corporate and organizational settings.

The JBMIA Countermeasure Against Imitation Product Subcommittee emerged from the Asia Counterfeiting Countermeasure Working Group set up in 2001, and consists of 13 private corporations. Since the time of its predecessor, the Copy Machine Patent Sub Group, they have been suffering problems from imitation toners for copy machines, and all the member companies are still struggling with not only imitation toners for copying machine, but a flood of expendables such as printer ink, toner and ink cartridges, and each company was trying to cope with the problems on its own.

IBMIA’s response to the question whether it’s sufficient for one company to fight against the problems on its own was to set up a sub-commission. The idea was to gather private companies together as an association having at least the common ground of being in the office equipment industry, growing to a bigger entity uniting further all the interested industry groups together, and eventually intending to approach the government to work with them. This is how IBMIA started.

The first step was to create the manual “Countermeasures against Counterfeits” by exchanging know-how from each company, focused on trademarks, and exclusively intended for China and Hong Kong.

Later, IBMIA realized that counterfeits were spreading not only in China, but the rest of the Asian nations as well which needed to be dealt with; therefore the border injunction system and management of Customs in South East Asia were mainly researched and studied. IBMIA decided on survey questions, requested foreign law offices to investigate

current conditions, evaluated the results among the members, and came up with a report. As it appeared as potentially effective among researched countries, the commission decided to dispatch investigation teams to both Thailand and Taiwan Customs.

However, for various reasons, the mission was only dispatched to Taiwan in 2005 where they mainly studied at Customs, exchanging opinions. JBMIA presented each company's counterfeit examples and explained how to determine imitations from the real ones, and Taiwanese Customs reciprocated with important information such as current examples and interpretation of regulations, etc., in Taiwan.

Starting in 2006, joint investigations and raids requested by JBMIA member companies have been considered.

3. International Intellectual Property Protection Forum's (IIPPF) Activities, Public, Private Sector Joint Countermeasure Against Counterfeits

3-1. Activities of the International Intellectual Property Protection Forum (IIPPF)

The International Intellectual Property Protection Forum (IIPPF) is a private organization promoting global strategies for the protection of intellectual property. It is a place where private companies and organization get together without the boundary of business differences, who are motivated to solve the problems of intellectual property infringement by counterfeits and pirated copies. It was launched in April 2002 with the purpose of consolidating the industry's voices to take concerted efforts for the promotion of intellectual property protection, while reinforcing collaboration with the government, and is currently conducting various activities through its project teams.

Chairperson	Yoshihide Munekuni Chairman and Representative Director, Honda Motor Co., Ltd.
Vice-chairperson	Osamu Watanabe Chairman, the Japan External Trade Organization (JETRO)
Secretariat	Japan External Trade Organization (JETRO)
Members	190 (85 organizations, 105 private companies)

Activities of the Project Teams

Project #1

The first project intends to promote long term continuous efforts by working with related domestic and overseas agencies, in order to strengthen intellectual property rights protection

in China by making demands through a public and private sector joint mission to China and the promotion of cooperation with Chinese official agencies.

2006 Cooperation and Support Operations

- * Technical seminar to State Intellectual Property Office
- * Presentation of similar trademark examples and informal meeting at the State Administration for Industry and Commerce
- * Solicitation of opinions with regard to planning of informal meeting with the Bureau of Quality and Technical Supervision
- * Delivery of a black list to Customs General Administration
- * Seminar on judging counterfeits from genuine products at Customs General Administration

Project #2

Analysis on problems of intellectual property rights in the regions/countries other than China, and requests to the related countries
(Currently out of session)

Project #3

The third project intends to contribute to strengthening of private company and organization's countermeasures against counterfeits and pirated copies by offering useful information and promotion of cross-sectional information and information sharing. Project #4 The fourth project is to review "cooperation" mainly through giving lectures at the training session to enforcement managers in relevant countries and an "awareness campaign" to foster intellectual property culture, while promoting the activities to help enhance intellectual property awareness among the general public.

3-2. Government and Private Sector Joint Countermeasures to Counterfeits

1) Setting up of Japanese Government Counterfeits and Pirated Copies General Customer Service

Some comments from private companies were sent to us indicating that it is difficult to find who to contact when they make inquiries about applicable laws after having suffered damages from counterfeits, and approaching a foreign government. Another comment suggested they should accept all inquiries that may involve multiple ministries in a comprehensive manner.

In response, we decided to accept all inquiries to the government at the "General Customer Service Window" and provide answers in collaboration with other ministries, and set up the "Japanese Government Counterfeits and Pirated Copies General Customer

Service” as an integrated customer service of the government in the Industry and Commerce Division, Counterfeit Countermeasure, at the Ministry of Economy, Trade and Industry.

2) Government-Private Joint Mission to China

The International Intellectual Property Protection Forum plans and the operates Government-Private Joint Mission to China with the objective of exchanging opinions with central and local Chinese government officials on the critical issue of protecting intellectual property for economic development of Japan and China. As the name “Government-Private” indicates, government officials from each ministry are participating and supporting the private sectors.

First Government-Private Joint Mission to China for IP Protection, December 2002

Leader	Yoichi Morishita, Chairperson, IIPPF Chairman of the Board, Matsushita Electric Industrial Co., Ltd.
Place of visit	Beijing, Zhejiang, Guangdong

The Second Government-Private Joint Mission to China for IP Protection, May 2004

Leader	Yoshihide Munekuni, Chairperson, IIPPF Chairman and Representative Director, Honda Motor Co., Ltd.
Place of visit	Beijing, Guangdong

The Third Government-Private Joint Mission to China for IP Protection 2005

(Working Level Mission)	Leader	Naotomi Shigeji, Secretary IIPPF (Vice Chairperson JIPA)
April, 2005	Place of visit	Beijing
(High Level Mission)	Leader	Yoshihide Munekuni, Chairperson, IIPPF
June, 2005	Place of visit	Beijing

The Fourth Government-Private Joint Mission to China for IP Protection 2006

(Working Level Mission)	Leader	Yasusuke Kato, Secretary IIPPF (Vice Chairperson JIPA)
April, 2006	Place of visit	Beijing
(High Level Mission)	Leader	Yoshihide Munekuni, Chairperson, IIPPF
June, 2006	Place of visit	Beijing

Chapter 6: Summary

Counterfeit problems seem like an endless game. Right holders constantly need to watch the market so as to enforce his/her right as soon as any illegal counterfeits are discovered. It is also necessary to spread awareness among the consumers that buying an imitation is an illegal act.

Here are some points to consider about counterfeit problems.

(1) Product value of counterfeits

Many genuine products such as imported brand name video are generally expensive due to complicated distribution system problems. Therefore, a less expensive imitation version whose quality and looks are about the same is what consumers would tend to buy. However, in many cases, the imitation turns out to be of much less quality, or even defective, and there is no aftercare available.

(2) Problems of technical cooperation and transfer of technology with foreign country

Developing countries have desires to possess advanced industrial technologies and make a profit from them. However, from an intellectual property perspective, it is difficult to offer economic cooperation such as technology cooperation, transfer and investment when the judicial system and its enforcement of the region or of the area of technology is not appropriate.

(3) Research and development on their own

If they are able to develop their own business and industry by obtaining intellectual property rights of their own, the manufacturer does not have to commit counterfeiting, thus reducing imitations as a result.

(4) Importance of Intellectual Property protection

Protection of rights such as patent, design, and copyright are indispensable in order to secure incentive for creating inventions and some guarantee to cover the high cost of research and development. For instance, just as a farmer needs property such as land, someone in industrial business needs intellectual property that guarantees his/her results, and especially for a creator of an original work, the need to protect his/her work is great.

- In a sound industrial society intellectual property rights are fundamental tools.
- In a society where intellectual property rights are violated, and counterfeits (illegal products) are rampant on the market, there is no hope for healthy development of the economy or culture. Aspiring to create a strong economy and industrialized society, one needs to be aware that intangible property like ingenuity and credibility are as valuable as a tangible counterpart, and to improve one's own creativity and research and development power.

Counterfeit problems are becoming borderless. It is not something one country can solve and prevent on its own. To eradicate such illegal acts, the following points are critical in addition to international cooperation.

- I: Global improvement of the judicial system and its enforcement regarding intellectual property (such as by treaty).
- II: More desirable conditions to bring in foreign economy and technology by easing licensing regulations and improving investment opportunities.
- III: Promotion of education and awareness activities regarding enforcement of IP systems.

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2006 Intellectual Property Strategy Headquarters