

# The Legal Issues and Practices Concerning Cease-and-Desist Letters for IP Infringement

As is likely the prevailing practice in many countries, in Japan it is common to send a cease-and-desist letter when any infringement of a client's intellectual property rights is first identified. However, at times the rights holder may instead decide to take immediate legal action.



**By Norimitsu Arai**  
Nagashima Ohno & Tsunematsu

or importer. In these cases, a cease-and-desist letter is initially sent to distributors and, subsequently, the distributors are asked to disclose information regarding the manufacturer or importer. Rights holders sometimes send cease-and-desist letters to distributors not only to make them cease dealing with the infringing product, but also to push them to start purchasing the original product from the legitimate rights holder. It is also not unusual for rights holders to seek damages from distributors, as well as from manufacturers and importers, and Japanese courts have issued a number of decisions awarding damages in relation to cease-and-desist letters sent to distributors by the alleged rights holders.

## **The Unfair Competition Prevention Law**

The *Unfair Competition Prevention Law* of Japan (Article 2, Paragraph 1, Item 14) defines "unfair competition" as making inaccurate statements

Issuing cease-and-desist letters for infringements of intellectual property (IP) is a useful first tool for protecting IP rights. However, protecting one's right to patents (*tokkyo ken*), utility models (*jitsuyo shinan ken*), design patents (*isho ken*), trademark rights (*shohyo ken*) and copyrights (*chosaku ken*) through the use of cease-and-desist letters also involves certain legal risks.

For patents, utility model rights, design patents and trademark rights, it is the sale of an infringing product that usually constitutes an infringement. However, after the amendment to the *Copyright Law* that came into effect in 2000, the distribution of infringing products to the public may also constitute a copyright infringement. It is therefore now common practice to send cease-and-desist letters not only to the party that manufactures or imports infringing products but also to the parties that distribute them.

Although it may be more effective to send a letter to the manufacturer or importer of an infringing product to stop infringement at the source, distributors are often the more reputable or larger company involved, and can thus reasonably be expected to cease dealings with dubious products in light of the attendant risks to reputation or in the interest of legal compliance. From the standpoint of well-known distributors, it might be worthwhile to end questionable practices, whether or not a court would eventually hold the product in question to be infringing intellectual property rights.

In initial stages, it is often difficult to identify the manufacturer

that are detrimental to the credibility of business competitors. Remedies for such unfair competition are primarily injunctive relief and compensation for damage. Japanese courts have generally held that, in order to determine the existence of such unfair competition, the false statement must have been made to unidentified persons or entities and/or a large number of persons or entities.

Japanese courts have repeatedly held that cease-and-desist letters that are groundless can generally fall under the definition of unfair competition. Additionally, on September 19 2000, the Tokyo District Court held that even if the addressee of the cease-and-desist letter is only one person or entity, such action could fall under the definition of unfair competition. To this end, before sending a cease-and-desist letter, it is vital to review a client's claim closely to determine whether the claim is viable, although it is often difficult to assess the strength of a claim.

From a practical viewpoint, a careful review of the strengths and weaknesses of a claim to a patent may be particularly required before sending a cease-and-desist letter, following two decisions issued by the Supreme Court of Japan. The Supreme Court has held that under the doctrine of equivalents (*kinto ron*), even if no literal infringement exists, the patent may still be considered to be infringed if there are only insubstantial differences between the patented and accused products. Moreover, the Court has ruled that it is a valid defence to challenge the validity of the patent that is allegedly being infringed.

There may also be great difficulty in determining whether client claims are viable in terms of other intellectual property rights. For instance, there may be difficulty in determining the strength of a client's copyright claim, especially in terms of the legitimacy of a copyright and similarity, because of the lack of clear criteria for these assessments. However, primarily due to their importance to the business sector and their technical nature, patents lead in terms of the number of judicial precedents addressing the issues under the *Unfair Competition Prevention Law*.

### The Doctrine of Equivalents

On February 24 1998, the Supreme Court of Japan adopted, in principle, the doctrine of equivalents, which broadened the scope of certain claims to IP rights.

In general, the patent holder owes the burden of proof of a patent infringement and, under such burden of proof, the patent holder is required to prove that the product or process in question satisfies all elements of the patent claims that are alleged to have been

infringed. If this principle is strictly followed, a patent can be easily circumvented merely by ensuring that a slight difference exists between an element of the patent claim and that of the product or process in question. The doctrine of equivalents, however, allows the patent holder to prove a patent infringement successfully, even if only an insubstantial difference exists.

Many critics argue that even before the Supreme Court's adoption of the doctrine of equivalents, Japanese courts had sufficient flexibility to allow patent holders to enjoy fair and reasonable protection. After the Supreme Court's adoption of the doctrine, Japanese courts now have the freedom to construe patent claims more flexibly, as they are not required to interpret patent claims quite so literally.

The Supreme Court's adoption of the doctrine of equivalents may have also had a psychological effect on the practice of protecting IP rights. In order to protect a client's interests aggressively, legal practitioners are often required to consider the applicability of

## NAGASHIMA OHNO & TSUNEMATSU

Kioicho Building, 3-12, Kioicho, Chiyoda-ku, Tokyo 102-0094, Japan

Tel: +81 3 3288 7000      Email: [info@noandt.com](mailto:info@noandt.com)

Fax: +81 3 5213 7800      Web: <http://www.noandt.com/>

Contact: Hisashi Hara, (Ms) Yuko Tamai (Dai-ichi-Tokyo Bar Association)

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the doctrine of equivalents to their own cases. Practitioners are sometimes required to send cease-and-desist letters to the allegedly infringing parties; in practice, however, it is difficult to determine whether a court would ultimately allow a patent holder to apply the doctrine of equivalents to the case. Additionally, after the Supreme Court's adoption of the doctrine, it has become relatively difficult to persuade clients not to send cease-and-desist letters because they now often try to construe their patent claims as broadly as possible. Under the *Unfair Competition Prevention Law*, it might be considered risky to send a cease-and-desist letter based only on broad patent claims because such interpretation may ultimately be considered groundless by the courts.

### The Invalidity Defence

On April 11 2000, the Supreme Court held that an accused infringer is allowed to submit an invalidity defence when it is apparent that the patent that is allegedly being infringed could reasonably be deemed invalid.

Prior to the Supreme Court issuing this judgment, the rule prevailed that, even if there was apparent cause for invalidating the patent, the alleged infringer was not allowed to use the defence that enforcement was prohibited due to reasonable claims of the patent's invalidity. It was considered that, because the Japanese Patent Office had a procedure for invalidating patents, the alleged infringer should have filed a petition for invalidation with the patent office rather than rely on an invalidity defence after the fact. Conversely, it has been argued that many patents would be considered invalid primarily because of their "non-obviousness." Thus, prior to the Supreme Court issuing the foregoing judgment, it had been considered reasonable to disallow the invalidity defence, even if the patent had reason to be invalidated.

After the Supreme Court issued the foregoing judgment, an invalidity defence was codified into the Patent Law of Japan (Article 104-3). It is widely reported that, in many cases, courts have dismissed patent holders' claims because of the invalidity defence, most of which were due to non-obviousness.

Under these circumstances, patent holders generally face difficulties in determining whether to send a cease-and-desist letter. This is typically because (i) a cease-and-desist letter could trigger a claim under the Unfair Competition Prevention Law, and (ii) the alleged infringers may vigorously try to invalidate the patents in question. Japanese courts have tried to address these concerns in their efforts to determine non-obviousness in a relatively consistent fashion, although this issue is closely connected with the Japanese

government's entire policy concerning intellectual property rights. Simultaneously, the courts have attempted to set out the criteria to differentiate between legal cease-and-desist letters and illegal ones.

### Judicial Precedents concerning Cease-and-Desist Letters

There are a number of judicial precedents on awarding damages or injunctive relief concerning cease-and-desist letters based on the finding that the claims of those letters were groundless. On the other hand, lower court cases have held that, even if a patent infringement claim is eventually ruled groundless, the cease-and-desist letter is not illegal. On August 8 2006, the Tokyo District Court held that, if a certain statement is believed to have been made "as a legitimate exercise of patents, etc., such statement is still legal". Moreover, "with respect to warning vis-à-vis customers of a certain competitor, it would be illegal if the warning party was aware, or could have easily become aware, that such warning lacks legal/factual grounds after making factual investigations and legal analysis to the extent usually required to bring a patent infringement claim to the court". This judgment further stated that the court should determine whether the warning party could have easily been aware of the lack of legal or factual grounds, taking all of the circumstances into account.

Unfortunately, from a practical viewpoint, this decision might not be sufficiently helpful when the patent holder is determining whether or not it should send out a cease-and-desist letter because it does not clearly set out the criteria for differentiating between a legitimate cease-and-desist letter and an illegal letter. However, it is clear from the above judgment that the patent holder should, at the very least, prepare documentation to substantiate its investigation into the relevant facts before sending out a cease-and-desist letter. Otherwise, it could be difficult to establish that the patent holder had made the sufficient factual investigations and legal analysis to the extent considered necessary to bring a patent infringement claim to the court.

### About the author

*Norimitsu Arai is a partner at Nagashima Ohno & Tsunematsu. His practice focuses on dispute resolution, including labor law, intellectual property and corporate law-related dispute resolution. Arai earned an LL.B. in 1993 from Waseda University and an LL.M. in 2001 from the University of Washington School of Law; he was admitted to practice in Japan in 1995. Arai worked for the Ministry of International Trade and Industry (now known as the Ministry of Economy, Trade and Industry) from 1999 to 2000.*