

Comparative Study on Trademark Enforcement between Japan and the United States: Focusing on Damages and Criminal Penalties*

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The purpose of this study is to clarify the differences and actual operations involving damages and criminal enforcement against trademark infringement between the U.S. and Japan. Concerning damage systems, basically, Japanese trademark law awards only actual damages. However, U.S. law awards, from a viewpoint of not only compensation but also deterrence, accounting for the infringer's profits, discretionary enhanced damages, mandatory punitive damages against intentional counterfeiting, and statutory damages against counterfeiting. Regarding actual operations, this study shows the following. (1) Most U.S. trademark civil cases are decided by default judgements, in which statutory damages are awarded against online counterfeit sellers; (2) The median amount of damages which is awarded by judgment on merits in U.S. cases (2014-2018) is about six times larger than the amount in Japan (2014-2018). The reasons for this are the differences in the scale of the market or the infringing conducts, the deterrence-based damages system, and the burden of proof of deduction from the defendant's sales; (3) Discretion of courts has significant meaning in terms of awarding damages in U.S. law; and (4) state law plays more of a leading role than federal law in U.S. criminal enforcement.

I. Introduction

The purpose of this study is to clarify the differences and actual operations involving damages and criminal enforcement against trademark infringement between the United States and Japan.

II. Overview of U.S. trademark damages system¹ and comparison with Japan

1. Federal law and state law

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¹ In general, see 5 J. THOMAS MCCARTHY, MCCARTHY ON TRADEMARKS AND UNFAIR COMPETITION § 30 (5th ed.), Westlaw (database updated Nov. 2019); 4 JEROME GILSON & ANNE GILSON LALONDE, GILSON ON TRADEMARKS § 14, Lexis Advance (database updated Dec. 2019).

In the U.S., trademarks are protected under federal law (Lanham Act) and state law. Although the Lanham Act plays a main role in civil enforcement against trademark infringement, state -law-based claims are often alleged in federal trademark cases. Especially, punitive damages could be provided under state law.

2. Damages under Lanham Act

15 U.S.C. § 1117 (a) provides actual damages, accounting for infringer’s profits, discretionary enhanced (actual) damages (up to treble) and discretionary increase or decrease of recovery from infringer’s profits. Against trademark counterfeiting, § 1117(b) provides mandatory treble damages (from AD or IP) and § 1117(c) provides statutory damages.

3. Actual damages

Many circuit courts require actual confusion for actual damages. Major types of actual damages are lost profits (lost sales), reasonable royalty (mainly for hold-over licensee) and costs for corrective advertisement.

4. Accounting for infringer’s profits

Purposes or theoretical bases of accounting are considered as compensation, unjust enrichment and deterrence of willful infringement.

Most circuit courts do not consider willfulness as a requirement of accounting, but the Second Circuit and the Ninth Circuit require “willfulness” for accounting. The U.S. Supreme Court granted certiorari in *Romag Fasteners, Inc. v. Fossil, Inc.*, 817 F.3d 782 (Fed. Cir. 2016). In their Amicus Brief, Mark A. Lemley and other professors support the “willfulness” requirement because of balancing between deterrence of willful conduct and the chilling effect on legitimate competition.

According to 15 U.S.C. §1117(a), the plaintiff need only prove the defendant’s sale. The defendant must prove all elements of cost or deduction, including apportionment.

5. Discretionary enhanced damages and discretionary increase or decrease of recovery from infringer’s profits

Unlike patent law (35 U.S.C. § 284), the Lanham Act (15 U.S.C. § 1117(a)) provides “Such sum in either of the above circumstances shall constitute compensation and not a penalty.” The nature

of discretionary enhanced damages in patent law is considered as “punitive”², but not in trademark law.

A “compensation and not a penalty” clause and discretionary decrease on infringer’s profits recovery are introduced by the Lanham Act of 1946. Although the legislative intent is not clear, drafters of a trademark bill had worried about excessive damages by accounting for infringer’s profits in *Hamilton-Brown Shoe Co. v. Wolf Bros. & Co.*, 240 U.S. 251 (1916).

Purposes of enhanced damages in trademark law are considered as (1) giving wide discretion to trial courts for full compensation and (2) deterrence of willful infringement. But Ninth-Circuit cases hold that only (1) compensation is the purpose of enhanced damages because of the “compensation and not penalty” clause.

6. Punitive damages under state law

Although the Lanham Act does not provide punitive damages, state law could provide punitive damages and the Lanham Act does not preempt them.

7. Special damages for trademark counterfeiting

(1) Trademark counterfeiting

“Trademark counterfeiting” is a special type of trademark infringement. In addition to the registered trademark infringement requirement (15 U.S.C. § 1115(a)), trademark counterfeiting requires identity with or substantial indistinguishability from the registered mark and use on or in connection with the same goods or services of the registered mark (§ 1116 (d)(1)(A), § 1127).

(2) Mandatory treble damages (§ 1117(b))

15 U.S.C. § 1117 (b) provides that the court shall treble the amount of actual damages or infringer’s profits against intentional trademark counterfeiting. This clause was introduced by the 1984 amendment.

According to the Senate Report, one of the legislative intents was to deter intentional trademark counterfeiting. The Senate Report clearly states that the mandatory treble damages are “punitive” and “penalty.” Another intent was to motivate trademark owners to file civil suits against trademark

² *Halo Elecs., Inc. v. Pulse Elecs., Inc.*, 136 S. Ct. 1923 (2016)

counterfeiting.

(3) Statutory damages (§ 1117(c))

Statutory damages were introduced in the Lanham Act by the 1996 amendment. The Senate Report pointed out that it was extremely difficult or impossible to prove damages against counterfeiters, who often concealed or discarded records or did not make any records.

Statute amounts (minimum and maximum) were doubled by the 2008 amendment.

8. Comparison with Japan

Basically, the Japanese trademark law award only actual damages. This is because, in Japan, the purpose of the damages system is considered as not penalty and deterrence but compensation. However, in practice, courts and legislators take the deterrence effect of damages into consideration, especially in the calculation of damages.

The Japanese trademark law (Art. 38 of the Japanese Trademark Act and Art. 5 of the Japanese Unfair Competition Prevention Act) provides some calculation and presumption clauses for actual damages: rebuttable presumption of lost sales quantity (Art. 38 (1) of the JTA); rebuttable presumption of damages from the infringer's profit (Art.38(2) of the JTA) and reasonable royalty damages (Art.38 (3) of JTA). For proving actual damages (especially lost profits), Japanese law is favorable to right holders.

For application of Art. 38 (2), plaintiffs have to show circumstances suggesting that the plaintiff could have gained profits if no trademark infringement had been made by the infringer. And plaintiffs have to show the total amount of marginal profits earned by infringement. But, practically, it seems that the defendant has to prove the marginal costs if the plaintiff proves the defendant's sales. Defendants can rebut if they show that the actual damages to the plaintiff were smaller than the profits (deduction by smaller damages). Those are the main differences compared with U.S. accounting for infringer's profits.

According to Art. 18,74.7-8 of the TPP, the Japanese Trademark Act introduced "pre-established damages" by the 2018 amendment (Art. 38 (4); after the 2019 amendment, Art.38 (5)). Art. 38 (4) enables a trademark owner to recover damages equivalent to "the costs which are ordinarily incurred in acquisition and renewal of trademark registration" when the infringer's mark and goods are the same as the registered mark and goods.

However, reasonable royalty damages (Art. 38 (3) of the JTA) play a partly similar role to U.S. Statutory damages. Courts have some discretion in calculating the royalty rate or the amount of

reasonable royalty. In some cases, courts found a higher (sometimes double) royalty rate for damages than the rate in ordinary license agreements.

On the whole, in U.S. law, the wide discretion of the trial courts plays a significant role in awarding damages. Japanese courts also have some discretion in calculating damages, but this discretion is mainly used for compensation of actual damages.

III. Civil trademark cases and damages in U.S. and Japan

Most U.S. case data are based on Lex Machina. Japanese cases are based on the Japanese Supreme Court Website Database.

1. Number of civil cases

The number of civil trademark (TM) and other intellectual property law (IP) cases in Japan is very small. The approximate average numbers of civil cases filed per year (2014-2018) is 3,287 for U.S. trademarks, 84 for Japan trademarks and 554 for Japan IP in total.

However, most U.S. IP cases are resolved by withdrawal. And most U.S. trademark judgments are default and consent judgments. The ratio of default judgments in U.S. trademarks (43.2%) is much higher than U.S. patents (8.2%) and Japanese general IP (9.4%). Most trademark default judgments seem to be cases of online counterfeit sellers. In Japan, the main enforcement against such online counterfeit sellers is criminal.

2. Damages in general

According to Lex Machina Trademark Litigation³, most (80%) judgments in trademark damage awarded cases (2009-2017 Oct.) are default judgments and most default judgments awarded statutory damages.

In “Mass Counterfeiter Default Damages” (total 1,191 cases, 2009-2018), which is categorized by Lex Machina, the mean amount of statutory damages per defendant is \$959,339; the median is \$500,000, and the mode is \$2,000,000.

3. Comparison on judgment on merits cases

³ Brian C. Howard, Lex Machina Trademark Litigation Report 2017

There were about 123 U.S. cases in which damages were awarded by judgment on merits or jury verdicts for trademark infringement or willful dilution from 2014 to 2018 (data in Lex Machina), in which the mean amount of total damages was \$2,653,870 and the median was \$204,151. The most used damage type is accounting for infringer's profits (77 cases). Next is statutory damages (46 cases).

There were about 37 Japan cases in which damages were awarded from 2014-2018 and published on the Supreme Court Website, of which the mean amount of total damages is \$235,501 and the median is \$35,964. The most used damage type is presumption from infringer's profits (18 cases). Next is reasonable royalties (15 cases).

So, the median amount of U.S. trademark damages in judgments on merits (\$204,151) is 5.7 times larger than that of Japan (\$35,964).

One of the biggest factors behind the difference in the amount of damages is the scale of market or infringing conducts. In 2016, the U.S.'s GDP at current rates was 3.8 times larger than Japan's. The median amount of defendant sales (\$1,645,707) in U.S. cases is five times larger than the amount (\$332,473) in Japan infringer's profits presumption cases.

The second factor is that U.S. law provides a deterrence-based damages system (accounting, enhanced damages, punitive damages, mandatory treble damages and statutory damages). Enhanced damages and punitive damages increased the amount of actual damages and infringer's profits by 30%. Even in a judgment on merits, the amount of statutory damages is generally much higher than any type of Japanese damages.

The third factor is differences in accounting for infringer's profits and presumption from infringer's profits. In the U.S., there were not a few cases in which courts found the defendant's sales as profits without any deduction. And deduction for apportionment only occurred in one case and was considered in two discretionary decrease cases. Japanese courts are more flexible in deducting costs. But deduction for apportionment and smaller actual damages is approved by courts in only a few cases in Japan too.

IV. Criminal trademark enforcement in U.S. and Japan

Unlike Japanese law, the U.S. federal law criminalizes not trademark infringement but only trademark counterfeiting (18 U.S.C. § 2320).

The number of federal criminal trademark prosecutions in the U.S. (72 in 2018) is much smaller than in Japan (302). Possible causes of this small number are that federal prosecutors are

too busy and right holders use civil enforcement. Another reason is the role of state law⁴. The total number of prosecutions in all states is not clear, but 105 people were sentenced as trademark counterfeiters in New York (2015). And many state laws provide much broader⁵ interpretation of trademark offense than U.S. federal law.

In contrast with the small prosecution numbers, the ratio of those sentenced to prison under U.S. federal law (about 50%) is much higher than in Japan (5%). This high ratio seems to be caused by the 2000 amendment of the United States Sentencing Guidelines. By the amendment (because of the 1997 NET ACT), the basic offense level for trademark counterfeiting increased from 6 to 8, and it introduced a minimum offense level (12) for offenders involved in manufacture or import of counterfeit goods.

V. Conclusion

Against online trademark counterfeit sellers, default judgement and statutory damages are heavily used in U.S. trademark law. In Japan, criminal enforcement is the main enforcement against such offenders. Concerning this point, more study on the basic differences in civil procedure law (especially identification of defendants and services) and social costs and benefits of default judgment and criminal enforcement is needed.

In U.S. law, the wide discretion of the trial courts plays a significant role in awarding damages. Japanese courts also have some discretion in calculating damages, but this discretion is mainly used for compensation of actual damages, not for deterrence.

This study did not reach a normative conclusion about whether Japan should introduce a deterrence-based damages system. But it should be noted that excessive deterrence would chill legitimate trade and expression.

In U.S. law, discretion of courts plays an important role in awarding damages. And the Discretionary Decrease clause has been used for balancing. However, discretion of courts is a good tool just for resolution of the case, but it is not so suitable for avoiding a chilling effect on legitimate trade.

If we strengthen the trademark damages system in order to deter infringement, we need to clarify which conducts should be deterred and how they should be defined. We also should reconsider current trademark offenses from such a view.

⁴ See Jeremy M. Wilson et al., Product Counterfeiting Legislation in the United States: A Review and Assessment of Characteristics, Remedies, and Penalties, 106 J. Crim. L. & Criminology 521 (2016); Kari Kammel et al., The Crime of Product Counterfeiting: A Legal Analysis of the Usage of State-Level Statutes, 18 Chi.-Kent J. Intel. Prop. 125 (2019).

⁵ In *Commonwealth v. Omar*, 602 Pa. 595 (2009), the Pennsylvania Supreme Court voided the trademark counterfeit offense clause in Pennsylvania state criminal code based on the overbreadth doctrine.