Turning the Tables: How Japanese Companies are Using the U.S. Legal System to Their Advantage

By Louis S. Mastriani

"Enact strategy broadly, correctly and openly." (Miyamoto Musashi: A Book of Five Rings)

Kensei Musashi (Miyamoto Musashi), one of Japan's most renowned samurai warriors, wrote these words at the conclusion of his classic text *The Way of the Sword* while living in a cave in the mountains of Kyushu a few weeks before his death in 1645. Little did he know that his philosophy on strategy would evolve over three centuries later into a guide for Japanese companies in implementing strategies for effectively competing in global markets. It is in the United States market that Japanese business people have met their most formidable challenges and achieved, perhaps, their greatest successes.

For as long as Japanese companies have been doing business in the U.S. they have been faced with an array of litigation and adversarial administrative proceedings. These actions have been initiated by U.S. companies intent upon preventing the loss of domestic sales and market share to competition by foreign companies. The primary focus of these actions has been violations of intellectual property rights that are adjudicated before juries in federal court cases or by federal government agencies, as well as violations of U.S. antidumping laws by reason of unfairly low pricing.

It is no longer surprising that, far more often than not, Japanese companies were the target of these legal actions, which intensified during the 1980s and reached their peak in the early 1990s. Faced with an increasing number of intellectual property infringement and antidumping proceedings during this time period, Japanese companies also had to contend with the perceived anti–Japanese bias that found its most public expression in the form of so–called "Japan bashing." The broad successes of a number of Japanese industries in penetrating the U.S. market and gaining substantial market shares, coupled with the widening trade deficit between the two countries, engendered the notion of "us against them," especially in the regions of the U.S. that experienced the adverse economic consequences of those successes.

This notion portrayed large Japanese companies as "Japan Inc.," the source of many U.S. economic problems, especially high unemployment and the demise of certain industries. This went hand–in–hand with the perception that Japanese companies were exploiting the open market and free trade policy of the U.S., while, in their home market, they enjoyed the benefits of protectionist barriers to imports from the U.S. One may argue that these notions and perceptions were exaggerated to a varying extent by government, industry and the media in both countries, but, experience demonstrates that perception tends to be nine tenths reality. That reality was repeatedly brought home to Japanese companies doing business in the U.S. through the economic impact of huge awards of damages by U.S. juries for patent infringement, the repeated imposition of punitive duties for violations of U.S. antidumping laws and the exclusion of Japanese goods from the U.S. because of violations of the intellectual property rights of U.S. companies.

Minolta–Honeywell, Nintendo

Two highly publicized rulings in particular by U.S. juries awarding very substantial damages for patent infringement against Japanese companies confirmed fears in Japan that the American jury system is often biased against large Japanese companies. In 1992 a jury determined that Minolta had infringed Honeywell patents covering autofocus camera lens technology and ordered Minolta to pay $96 million in damages. Throughout the trial Honeywell attorneys appeared to take every opportunity to highlight Minolta as a large predatory Japanese company in an effort to exploit any anti–Japanese sentiment among the jury, and went so far as to use Japanese actors to read to the jury excerpts of the depositions of Minolta employees. Minolta ultimately settled the case for $127.5 million, which covered the jury award, court costs and a worldwide license for the technology. Subsequently, several other Japanese camera manufacturers quickly agreed to take licenses under the Honeywell patents.

Likewise, in 1994 a jury ordered Nintendo to pay $208 million to a bankrupt U.S. company for infringing of its patent covering video games. Another Japanese video game manufacturer had previously settled with the U.S. patent owner prior to the ruling. Nintendo, at the urging of some Japanese executive, however, had elected to fight the case, rather than giving credence to the reputation of Japanese companies as litigation–shy companies that could always be persuaded to settle a U.S. jury case. After the decision Nintendo bitterly complained that "This kind of outrageous verdict presents an image of bias against large [foreign] companies." It was only very recently that Nintendo succeeded in overturning that verdict on appeal.

The frustration expressed by Japanese companies, as a result of these and other substantial jury awards, stemmed in great part from over a decade long issuance of adverse determinations by U.S. government agencies. They held that imports of Japanese products were either being sold at unfairly low prices, or constituted unfair competition because these imports violated the intellectual property rights of U.S. companies. The Japanese products in question covered the entire spectrum of industries, from chemicals and pharmaceuticals to semiconductor and electronics products to industrial machinery to consumer goods. These Japanese imports were subjected to the scrutiny and impact of specific U.S. trade statutes that were enacted into law during the protectionist climate of the 1920s and 1930s and then amended in the 1970s and 1980s in order to more effectively regulate competition from foreign products in the U.S. market. Proponents of these trade laws, and the domestic companies that availed themselves of the remedies under the laws, considered them to be the last defense against a flood of unfair foreign competition. Opponents of these laws, and the companies that were the targets, both foreign producers and U.S. importers, on the other hand, viewed them as relics of U.S. protectionist policies.

The two primary U.S. trade laws that were most frequently and successfully used against imported Japanese goods were the provisions of Title VII of the Tariff Act of 1930 that declares as unlawful the dumping of goods in the U.S., and Section 337 of the same statute which prohibits unfair competition by goods imported into the U.S.

Section 337 and antidumping law

Dumping is most often described as price discrimination between national markets. The U.S. antidumping law is intended to prevent such price discrimination, as well as pricing below cost. U.S. antidumping proceedings involve separate, but simultaneous investigations by the U.S. Department of Commerce ("Commerce") and the U.S. International Trade Commission ("ITC"). Commerce is responsible for determining whether dumping exists (sales at less than fair value) or, more specifically, whether the imported merchandise is being sold in the U.S. at prices lower than those charged for the same merchandise in the producer's home market, referred to as normal value. The ITC, on the other hand, determines whether a U.S. industry has suffered, or is threatened with, material injury by the dumped imports. Affirmative findings by both Commerce and the ITC result in the issuance of an antidumping duty order and the imposition of antidumping duties. The final duty imposed equals the so called "dumping margin"—the amount by which the normal value exceeds the U.S. price for the merchandise.

Section 337 provides one of the most effective means by which an owner of a U.S. intellectual property right can protect that right from unlawful infringement and unfair competition by imported products. The law authorizes the ITC to conduct rapid investigations that can result in an order to exclude all infringing products from entry into the U.S., and to prevent the sale of those goods that have already been imported.

In response to what were considered to be excessive demands by U.S. companies for royalties under U.S. patents, Japanese companies in recent years have become very aggressive in filing for patents in the U.S. As a result, the companies receiving the most patents in the U.S. have been Japanese. The head of Hitachi's intellectual property department at the time stated that his company planned "to aggressively utilize intellectual property rights as [its] biggest asset." Japanese companies have increasingly used their U.S. patent portfolios to pursue infringement claims in U.S. courts when domestic firms refused to pay the required royalties. Japanese companies also countered excessive demands for royalties by U.S. companies under their patents by filing lawsuits to invalidate the patent or render them unenforceable. These suits often resulted in highly favorable settlements for the Japanese companies, if not outright victory. "The U.S. court system is not a problem if you know what you are doing," said former Sony Corporation Chairman Morita Akio in an interview on Japanese television.

It was approximately during this period that Japanese industry also came to the realization that the very same U.S. trade laws that had been consistently used against it could be affirmatively used against competitors in the U.S. market. The provisions of the antidumping law and Section 337 had traditionally benefitted U.S. companies through the imposition of sanctions or penalties on foreign companies. Because these remedies operated against imported goods, Japanese companies in particular increasingly established subsidiaries in the U.S. that manufactured goods for consumption in the U.S., and to a degree, for export markets. It did not take long for these subsidiaries to themselves experience the impact of foreign competition. As a result, these Japanese companies, either directly or in conjunction with their U.S. subsidiaries, began to file complaints under these trade laws against goods imported into the U.S. either from the foreign subsidiary of a U.S. company, or from another foreign company. A brief review of some of these cases provides considerable insight into how effective Japanese companies have been in using the above–referenced U.S. trade laws to protect their competitive positions, as well as their intellectual property rights, in the U.S. market.

Smith–Corona vs. Brother: from defense to offense

The most well known affirmative use of the U.S. antidumping laws by a Japanese company arose out of the filing of an antidumping petition in 1979 by Smith Corona Corporation against imports of portable electric typewriters ("PETs") from Japan. A number of producers of PETs, including Brother Industries, were named as respondents in the antidumping investigation initiated as a result of Smith Corona's petition. The ITC preliminary investigations found material injury to the domestic PET industry, represented by Smith Corona, and the Department of Commerce made preliminary final determinations that Japanese PETs were being sold in the U.S. at less than fair value. The ITC then issued a final determination of material injury, and Commerce issued an antidumping duty order in 1980 covering PETs from all producers in Japan.

During the 1980s, Commerce conducted annual administrative reviews of the PET antidumping order, each of which resulted in the recalculation and adjustment of the dumping margins for each of the Japanese PET producers, including Brother Industries. During this period, several appeals were taken to the Court of International Trade regarding Commerce's revised scope of the antidumping order to cover upgraded

PETs, as well as the margin results assigned by Commerce to certain Japanese companies after administrative reviews. The court affirmed the expanded scope of the antidumping order, but also favorably adjusted the margins for certain Japanese companies.

In late 1990, Commerce, at the request of Smith Corona, and despite the vehement protests of the Japanese producers, and Brother in particular, issued a controversial ruling that certain more recently developed PETs were within the scope of the PET antidumping duty order. Commerce specifically found that the addition of an LCD, LED or CRT display and expanded and/or removable text memory to what had previously been a simple portable electric typewriter did not exempt that PET from the scope of the antidumping duty order. Then, in 1991, Smith Corona accused Brother of circumventing the PET antidumping order, and Commerce initiated an anti–circumvention proceeding. Commerce subsequently determined that Brother had not circumvented the antidumping order.

Smith Corona, however, persisted in its highly aggressive use of the antidumping laws to protect its domestic market against Brother's increasing efforts to penetrate that market. In late 1990, Smith Corona filed an antidumping petition against imports of personal word processors from Japan and Singapore, the primary producers of which were Brother Industries in Japan and its subsidiary in Singapore. The ITC preliminary investigation determined that imports from Japan were causing the domestic personal word processor industry material injury, but that imports from Singapore were not. The investigation continued with respect to imports from Japan, with Commerce making preliminary and final determinations that personal word processors were being dumped in the U.S. The ITC made a final determination of material injury which resulted in the issuance in 1991 of an antidumping duty order covering imports from Japan.

It was during this particular antidumping proceeding that Brother, refusing to continue to allow itself to be constantly on the defensive against Smith Corona's tactics, decided to take affirmative action. Consistent with the evolution of the global marketplace, and the need to control production and labor costs, Smith Corona, as well as Brother, had established production facilities in Singapore. Brother, for these reasons, as well as to minimize the impact of the PET antidumping duty order, had also established a subsidiary, Brother Industries Inc., having production facilities for PETs in the U.S. A mere several weeks before Commerce issued its preliminary determination in April 1991, that Brother Industries of Japan was dumping personal word processors in the U.S., Brother Inc. of the U.S. filed an antidumping petition that claimed that imports into the U.S. of PETs by Smith Corona from its Singapore subsidiary were being dumped and causing injury to Brother Inc., a member of the U.S. PET industry.

Commerce initiated an investigation based upon the Brother Inc. antidumping petition in May 1991, and the ITC made a preliminary determination that Brother Inc. was materially injured by reason of the imports of PETs from Singapore. At the outset of the investigation by Commerce, Smith Corona challenged Brother Inc.'s standing to file the antidumping petition on two grounds. The first was that Brother Inc. was not the interested party in the meaning of the U.S. antidumping statute, and the second was that Brother Inc. did not represent the domestic PET industry and, therefore, had not filed the petition on behalf of the domestic industry. Not surprisingly, Commerce agreed with Smith Corona, rescinded the investigation, and dismissed Brother Inc.'s petition.

Brother Inc. appealed for the rescission of the investigation to the Court of International Trade. The court determined in late 1992 that Brother Inc. was an "interested party," and, accordingly, qualified as having the necessary standing to file an antidumping petition on behalf of the domestic industry against PETs from Singapore. The case was remanded to Commerce for a resumption of the antidumping investigation. In October 1993 Commerce made an affirmative final determination that PETs from Singapore were being dumped in the U.S.

In February 1994, Brother unexpectedly withdrew its petition and requested Commerce to terminate the investigation against PETs from Singapore. The withdrawal, however, was expressly conditioned upon the revocation of the antidumping duty orders covering PETs and personal word processors from Japan. It was apparent that Brother had used the affirmative finding of dumping against Smith Corona's imports of PETs from Singapore to pressure Smith Corona to revoke the two antidumping orders that had long been a thorn in Brother's side. Smith Corona then filed requests with Commerce that the agency revoke the two antidumping duty orders that had originally issued as a result of its petitions. In May 1994, Commerce revoked the two antidumping duty orders, and terminated the investigation that had been initiated based upon Brother's petition. After 14 years, Brother was now free to sell its PETs and personal word processors in the U.S. market without the restrictions imposed by the antidumping duty orders.

Japanese firms try Section 337

Japanese companies had also begun to test the waters at the ITC by filing complaints, in conjunction with or through their U.S. subsidiaries, under Section 337 against imported goods that were claimed to infringe U.S. intellectual property rights. Makita was the first company to affirmatively use this trade law to protect its U.S. market share from foreign competition. A complaint was filed by Makita's U.S. subsidiaries requesting the ITC to investigate whether there was a violation of Section 337 by reason of the importation and sale of certain electric power tools and accessories from Taiwan.

In its complaint, Makita broadly claimed exclusive rights in the shapes and color of over 60 electric power tools and their accessories. Makita accused 31 manufacturing and importing companies from Taiwan and the U.S. of copying Makita's products and alleged that these companies were guilty of trademark infringement, false advertising and other deceptive practices intended to confuse U.S. consumers. It was apparent during the investigation that Makita recognized that its claims of exclusive trademark rights in the shapes and the color of its products were highly questionable. It was equally apparent, however, that Makita's management, faced with a surge of competing low priced products from Taiwan, and a loss of market share in the lucrative U.S. market, elected to pursue a request to the ITC to exclude the imports from the U.S. market. After a hotly contested investigation, the ITC ultimately concluded that there were no violations of Section 337. Makita appealed the ITC's decision to the U.S. Court of Appeals for the Federal Circuit. The court affirmed the ITC's decision, stating that Makita had failed to establish any trademark rights, and that there could be no likelihood of confusion in the marketplace.

This initial unsuccessful use of Section 337 did not dissuade other Japanese companies from affirmatively using Section 337 as a remedy for unfair competition by imports. In 1993, Tanabe Seiyaku and Marion Merrell Dow, Tanabe's exclusive U.S. licensee, filed a Section 337 complaint alleging patent infringement by a number of major European and U.S. pharmaceutical companies by reason of the importation and sale of diltiazem, a popular heart medication. Although the ITC eventually found no violation of the statute, several of the accused companies entered into a settlement agreement, rather than face the uncertainty of an appeal.

In 1994, Ricoh and its U.S. subsidiary filed a complaint at the ITC alleging violations of Section 337 by Samsung, the Korean electronics giant, and its U.S. subsidiary. Ricoh claimed that the importation and sale in the U.S. by Samsung of certain of its facsimile machines infringed two U.S. patents owned by Ricoh. A mere three months after the ITC instituted a Section 337 investigation, Ricoh negotiated a very favorable license agreement with Samsung and requested the ITC to terminate the investigation on the basis of the settlement agreement.

Also in 1994, Kaken Pharmaceutical Company of Japan filed a complaint at the ITC against two of the world's largest pharmaceutical companies, Hoechst of Germany and Merck of the U.S. Kaken accused the two companies of importing and selling salinomycin, a veterinary antibiotic, in violation of Kaken's U.S. patent. After a full investigation, the ITC determined that neither of the accused companies had violated Section 337 because Kaken's U.S. patent was invalid and unenforceable. Kaken did not appeal.

Enacting Musashi's strategy

The two most recent Section 337 complaints filed at the ITC by Japanese–owned companies have introduced an element of irony into the affirmative use of U.S. trade laws by Japanese industry. In 1995, Yamasa Enterprises, a Japanese owned company, filed a complaint at the ITC against Yamasa Kamaboko of Japan and several U.S. importers. Yamasa Enterprises accused Yamasa Kamaboko and its U.S. importers of trademark infringement because of the importation and sale in the U.S. of Asian–style *kamaboko* fish cakes, a popular Japanese food product. Yamasa Enterprises claimed exclusive rights to the trademark "YAMASA," and the Japanese kanji logo that was used on its kamaboko fish cakes. The ITC made a final determination that the imported products infringed the U.S. trademark in violation of Section 337. The ITC issued an exclusion order prohibiting the importation of the infringing food products from Japan, and also issued an order preventing the U.S. importers from importing, marketing and selling the same products.

The most recent case involved the filing in 1996 by Kubota Corporation and its two U.S. affiliates of a Section 337 complaint at the ITC against eight Japanese trading companies and thirteen U.S. distributors. Kubota claimed that the unauthorized importation and sale of certain gray–market Kubota agricultural tractors infringed several of its U.S. trademarks. U.S. consumers would confuse Kubota agricultural tractors manufactured for the Japanese market with Kubota tractors that were manufactured for use in the U.S. market. Kubota claimed that its agricultural tractors were manufactured for different uses in different markets, and in accordance with the governmental safety regulations extant in those markets.

Kubota has vigorously prosecuted its case before the ITC, especially singling out the Japanese trading companies, which have been compelled by the ITC to provide confidential business documents to Kubota, and ordered to produce company representatives to give testimony in depositions. Additionally, some of the Japanese trading companies were found by the ITC to be in default because of their failure to respond to the complaint, a result that will likely lead to a finding that these companies have violated Section 337. Another Japanese trading company was terminated from the investigation based upon its agreement with a consent order that provided the company admit the validity of Kubota's trademarks, and that it will not export, sell or otherwise transfer gray–market Kubota agricultural tractors to customers in the U.S. The target date for completion of the investigation by the ITC is scheduled for late February.

In view of the foregoing, it is apparent that Japanese companies have fully adapted to doing business in the U.S. to the extent that they, either directly or through their subsidiaries, frequently use the U.S. legal system to protect their economic and intellectual property interests. They have successfully made the transition from being consistently kept on the defensive as the target of extensive legal actions to aggressively taking the offensive in seeking legal relief in the courts and under the trade laws against their competitors. When confronted with unreasonable demands from their competitors, Japanese companies no longer capitulate, but readily challenge these demands by going to court. They may not always be successful in these endeavors, but their perseverance has earned them the grudging respect of their American and foreign competition. Their strategy has even begun to be emulated by some of their foreign competitors. Japanese businessmen have, indeed, enacted this aspect of their strategy for doing business in the U.S. "broadly, correctly and openly." Kensei Musashi would have approved.

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