

NEC Group's Anti-counterfeiting Activities -A Case Study-

Since its foundation in 1899, NEC has been involved in a wide array of innovations such as various research and development activities of world or nation's first technologies, and management innovations to realize such technological innovations, aiming to support the creation of a prosperous society. The NEC brand, founded on more than one hundred years of innovation, is a symbol of trust established between our customers and NEC.

However, as a trusted brand, NEC is also susceptible to counterfeiting. According to the World Customs Organization, the manufacture, distribution and sales of counterfeit products result in the estimated loss of billions of US dollars in legitimate revenues each year. This not only impacts legitimate companies, through lost sales, profits and ultimately investments, but may also mislead and harm consumers because of defects in counterfeit products.

To protect the NEC brand, the NEC Group is taking positive countermeasures against counterfeiting by collaborating with relevant public organizations, such as local administrative authorities, law enforcement authorities, customs and other organizations, as well as by resorting to legal procedures where necessary. The following is a report on one of the actual cases representing these efforts.

Sophistication of Counterfeiting: Cookie-Cutter Approach No Longer Effective

(1) Typical Steps upon Discovery of Counterfeits bearing the NEC trademark

Reports from local affiliate staffs and employees returning from business trip, combined with our independent market survey, have confirmed that counterfeit products bearing the NEC trademark have been sold in the Chinese, Taiwanese and Hong Kong markets since approximately 2002. The discovered counterfeit products extend over a wide range of product markets, and include speakers, portable CD players, radio cassette recorders, keyboards, mouse devices, notebook PCs, CD-R/DVD-R media, MP3 players, cell phone batteries and semiconductor chips.

The measures usually taken upon discovery of a counterfeit are to identify the manufacturer with the help of a private investigation firm and to send a letter of warning or to request seizure by the appropriate administrative authority. However, a recent case involved circumstances that could not be resolved by applying such traditional approach.

(2) Counterfeiting Sophistication

At the outset, NEC dealt with this case with the traditional approach of identifying the manufacturers through investigation and by sending letters of warning. However, in this case, most of the counterfeiters claimed that they were licensed by NEC affiliate to use the NEC trademark through a Japan-based small trading company and a Hong Kong-based company.

It was evident that neither NEC nor its affiliates had licensed the authority of manufacturing and distributing products bearing the NEC trademark to these counterfeiters, as such use is only approved under rigorous conditions and only for NEC subsidiaries or affiliates that can satisfy the judgment criteria defined by NEC.

Therefore, judging that it is highly probable that further counterfeits may be manufactured through the above possible cross-border conspiracy between these companies, in addition to the counterfeits already distributed, NEC chose to conduct cross-sectional surveys of products and regions instead of the traditional surveys that had previously been conducted individually on a per-product basis. The purpose of these surveys is to clarify which company is manufacturing counterfeit products according to which agreement with which companies and what kind of route is used to distribute each counterfeit to the market.

As a result of these surveys, it was found that there were organized counterfeit manufacturing and distribution routes originating with the aforementioned Japanese company and the Hong Kong company. More than 50 companies were involved in the scheme and the distribution routes of the counterfeits were established across China, Taiwan and Hong Kong. It was even found that some counterfeits were sold in major retailers and that the companies manufacturing and distributing the counterfeits paid the license royalties to the Japanese company and the Hong Kong company for the use of the NEC trademark.

Importance of International Strategies to combat Counterfeiting

(1) Strategic Planning and “Simultaneous Crackdowns”

Solving cross-border counterfeit problem requires an international strategy that considers local characteristics. This strategy must be based on a thorough knowledge of the countermeasures available against trademark infringement in each jurisdiction, including legal proceedings, judicial trials and administrative discretion. NEC consulted law firms and private investigation firms in order to establish an effective strategy based on close information exchanges between the parties.

In order to apply “simultaneous crackdowns” on the companies known to be playing the central roles among the manufacturers and distributors involved, NEC also proceeded to manage the coordination among the administrative authorities and police authorities in each country or region. As a result of repeated simultaneous crackdowns in China and Taiwan, the administrative authorities and police authorities succeeded in confiscating hundreds of thousands of counterfeit products. The main persons engaged in the counterfeiting were subjected to criminal prosecutions, and civil damages suits were also filed against them.

(2) Judgments by the Courts

The Tokyo District Court entered a judgment on March 19, 2008 in favor of NEC against the above mentioned Hong Kong company, recognizing that the company was never vested with the right to use the NEC trademark. In the ruling, the Court held that there was no factual basis that NEC or any of its subsidiaries conferred the rights to manufacture and sell products bearing the NEC trademark to the above mentioned Japanese company and the Hong Kong company. The Court also found that the documents presented before the Court by those companies as material evidence were unauthorized, and objectively deemed to be forged.

In relation to this case, NEC has already filed several civil actions in the courts in China, Taiwan and Hong Kong and has also filed several criminal complaints. Although time is required for the final establishment of all rulings, judgments recognizing the civil liability including compensations for damages have been rendered against some of the counterfeiters in China. In addition, a ruling accompanied by a prison sentence was also rendered on a

person playing central roles in some of the counterfeiting actions in Taiwan following admissions of criminal liability.

Future Measures

As described above, NEC is taking various supportive measures for the protection of its brand. Counterfeits illegally bearing the “NEC” trademark have not yet been totally eliminated from the market and the above described judgment are not yet final due to the appeals that have been lodged by the defendants (although an appeal to the judgment was filed with the Tokyo Intellectual Property High Court, the hearing has finished, and a judgment upholding the lower court verdict is expected in the near future).

NEC determined to successfully prosecute the current lawsuits to obtain the best possible results. Furthermore, NEC shall continue to take all suitable measures against such counterfeiting, and will continue to cooperate with administrative authorities, law enforcement authorities, customs and other organizations to take a proactive protect approach toward extermination of counterfeit products bearing the NEC trademark.