

General

The most important rule on parallel import in Japan is the Supreme Court decision of 27 February 2003. The Supreme Court established a rule that the import of genuine goods does not constitute infringement of the trademark in Japan under three conditions: (1) the sign was attached on the imported goods by the trademark holder abroad, (2) the trademark holders in Japan and abroad are either the same or can be regarded as the same, and (3) the trademark holder in Japan can control the quality of the imported goods directly or indirectly. The Supreme Court apparently relied on the “function theory” of the trademarks and considered that neither the source function nor quality function is harmed when these three conditions are met.

The facts of the case was that the holder of the trademark “Fred Perry” in Japan claimed damages against the importer of the polo shirts with “Fred Perry” sign. The imported goods were produced by the licensee in Singapore, which manufactured the shirts in China in contravention of the license agreement. The court held that the contravention of the license agreement harmed both the source function and quality function of the trademark, because the manufacture was undertaken outside the licensed territory (source) and beyond the control of the licensor (quality).

As available remedies, the trademark holder is, of course, entitled to damages and injunction under the Trademark Law. However, the most effective measure is application with the customs office for suspending the imported goods under the Tariff Law. Since the Tariff Law does not change the effects of intellectual property, the imported goods can be suspended only when they constitute infringement of the trademark under the Trademark Law, including the case law already mentioned. The customs office determines whether the application is justified, after making consultations with experts, where necessary. The rightholder and the importer are notified of the procedure and given the opportunity to defend.

Questions

1. Famous mark or not

It is not relevant in blocking the parallel import. Even a mark that is not famous has the source and quality function that could be harmed by the parallel import and, therefore, is protected in the same way as a famous mark.

2. Useful clauses in the distribution agreements

A clause limiting the business territory of the distributor (licensee) will make it more likely that the imported goods have a different source from the goods sold through the authorised distributor and, as a result, more prone to be held as harming the function of the trademark. See Osaka District Court 30 November 2004 (“Dunlop” in Southeast Asia was held to indicate a different source from “Dunlop” in Japan, because the rightholders in two regions are totally unrelated.) Whether such a clause withstands the antitrust scrutiny is another question.

3. Specific problems of drugs

The most serious issue with regard to drugs may be compulsory license. Although there is no case to the point, it is suspected that, in such a case, the mark will not be held as “attached by the trademark holder” so that the condition (1) for justifying the parallel import will not be met.

4. Other issue

Sometimes the authorised dealer and manufacturer may resort to patent, rather than trademark, to block the parallel import. Differently from the case of trademark, the Japanese Supreme Court relied on the theory of implied consent with regard to the power of patent against parallel import (Supreme Court, 1 July 1995). It denied the international exhaustion of patent and held that a patent holder in Japan (or an entity that can be regarded as identical to it) that placed patented goods in distribution abroad was prevented from exercising its patent in Japan unless it was agreed at the time of placing the goods in distribution that the goods should not be resold to Japan. The court added that such an agreement must be displayed on the goods explicitly in order to enable the patent to be exercised against a third party acquirer. Here again, the agreement with the distributor is important.

The English translation of the abovementioned case of the Supreme Court of 27 February 2003 is attached hereby. This and other important IP cases are available on the website at < <http://www.tomeika.jur.kyushu-u.ac.jp/chizai/courtcases.html> > (“Transparency of Japanese law” project.)

[Title]

Parallel Import

Claim for Injunction and Compensatory Damages due to Trademark Infringement

[Deciding Court]

Supreme Court, First Petty Bench

[Date of Decision]

27 February 2003

[Case No.]

Case No. 1100 (Ju) of 2002

[Source]

Minshu Vol. 57 No. 2: 125, *Hanrei Jiho* No.1817: 33,

Hanrei Taimuzu No. 1117: 216

[Party Names]

Y (Jokoku Appellant, Original Defendant) vs X (Jokoku Respondent, Original Plaintiff)

[Summary of Facts]

A, a company incorporated in the United Kingdom, was the holder of trademark rights in 110 countries around the world for a globally famous brand, “Fred Perry” (hereinafter, trademark rights in Japan are called the “Trademark Rights” and the trademark registered in Japan is called the “Registered Trademark”). B was a company incorporated in the United Kingdom that was a fully-owned subsidiary of X (Plaintiff, *Koso* Respondent, *Jokoku* Respondent). B succeeded to all the trademark rights in relation to the trademark “Fred Perry” held by A in all countries other than Japan, and A transferred the Trademark Rights for Japan to X.

Y (Defendant, *Koso* Appellant, *Jokoku* Appellant) imported and sold in Japan polo shirts made in China (the “Products”), which were marked with an emblem identical to the Registered Trademark (the “Emblem”). The Products were produced under a sub-contracting arrangement with a factory in China by order from C, an entity incorporated in Singapore, which was A’s licensee. However, the licensing agreement between A and C (the “Agreement”) contained, among other terms, the following terms;

(1) A authorized C to produce, sell and distribute the contracted goods in Singapore and three other countries (not including China), using a trademark identical to the Registered Trademark for the contracted goods for the territory agreed upon, and (2) C was prohibited from entering into any kind of sub-contracting arrangement for the production, finishing or packaging of the contracted goods without A's consent (the "License Provisions"). C's conduct mentioned above was in violation of the License Terms.

X sought, inter alia, compensatory damages from Y, alleging that the import and sale of the Products constituted an infringement of the Trademark Rights (Y also file a claim against X *et al*, however the details of Y's claim against X *et al*. are omitted here). Although Y responded that its conduct fell under the parallel imports of genuine goods and therefore lacked illegality, the infringement of Y's trademark rights was affirmed and X's claim was partially allowed both by the Osaka District Court (Judgment of 21 December 2000, *Hanrei Taimuzu* No. 1063: 248) and by the Osaka High Court (Judgment of 29 March 2002, *Minshu* Vol. 57 No. 2: 185). Y instituted a *jokoku* appeal.

[Summary of Decision]

The Court dismissed the *jokoku* appeal on the basis that;

The importing of the Products cannot be held to lack in illegality, nor can it be regarded as a parallel import of authentic goods."

- (i) "A person other than the holder of trademark rights, who engages in the importation of goods identical to goods subject to trademark rights and marked with an identical registered trademark in Japan, infringes those trademark rights by importing such goods without authorization (*Trademark Law* Article 2, Paragraph 3 and Article 25). However, even where the importation of goods is of this nature, it is regarded as parallel imports of genuine goods and lacks in substantive illegality as an infringement of trademark rights, if the following conditions are met: (1) the trademark has been lawfully affixed by the holder of trademark rights outside Japan, or by a person who is authorized to use the trademark by the holder of trademark rights; (2) the trademark affixed to the imported goods indicates the same origin as the registered trademark in Japan because the holder of trademark rights outside Japan and the holder of trademark rights in Japan may be the same person or be in a relationship where they can be viewed as legally or economically the same person;

and (3) the holder of trademark rights in Japan is able to directly or indirectly control the quality of the goods so that the imported goods are considered to have no substantive difference in quality to the registered trademarked goods in Japan.

Indeed, as the *Trademark Law* states in Article 1:

The purpose of this *Law* shall be to ensure the maintenance of the business

reputation of persons using trademarks by protecting trademarks, and thereby to contribute to the development of industry and to protect the interests of consumers.

In the case of so-called parallel import of genuine goods which satisfies each of the above conditions, there is no substantive illegality and no impairment of the functions of the trademark, which are to indicate the goods' origin, guarantee the good's quality, and to protect the business reputation of persons using trademarks as well as the interests of consumers."

Thus, (a) The Products were considered goods which were "produced with the Emblem affixed outside the scope of the license laid down by the License Terms in the Agreement" and were held to "impair the function of the trademark to indicate the goods' origin." (b) It was further held that "the restrictions on the countries of production and on subcontracting in the License Terms are extremely important for the holder of trademark rights to control the quality of goods and to be sure of the functioning guarantee of goods. The Products, which were produced under breach of these restrictions and to which the Emblem was affixed, were not subject to quality control by the holder of trademark rights, and it was possible that a substantive difference in quality, as against the quality guaranteed by the Registered Trademark, could arise between the Products and goods distributed by X with the Registered Trademark affixed. This resulted in the risk of impairment of the function of a trademark as a guarantee of the quality of the goods.