

RECHTSPRECHUNG / CASE LAW

Decision on Trade Mark Law

Trade Mark Act Sec. 37, Unfair Competition Prevention Act Sec. 2(1) (i)

“Converse II”

1. The importation of goods to Japan bearing a trade mark identical to a Japanese trade mark is unlawful unless the domestic and foreign trade mark owners qualify as one legal or economic entity, or the Japanese trade mark owner has supervised the quality of the goods imported to Japan.
2. It is of no consequence to this finding that after a transfer of the trade mark from a well-known US producer to a Japanese company, the Japanese consumer may associate the US producer with the origin of goods bearing such trade mark.

*Intellectual Property High Court, 27 April 2010
(appeal pending before the Supreme Court)*

Itôchû v. Royal

Facts

The old US Converse company (not part of the current dispute), producer of casual clothing, owned several “Converse” trade marks in Japan. In 1993, a subsidiary of the first plaintiff, Itôchû Sinshôji (Itôchû), entered into a distribution agreement with Converse in order to import and sell Converse goods in Japan. In 1999, the old US Converse transferred the Japanese Converse trade marks for goods other than shoes to Itôchû. In 2001, in the course of bankruptcy proceedings, the old Converse US was converted to the new Converse US, and a number of those trade marks currently in dispute (1, 2, 3, 6, 9 and 10) were contractually transferred from new Converse US to Itôchu. Thereafter, Itôchu applied for trade marks 4, 5, 7 and 8. In 2002, a new subsidiary of Itôchu, BMI Holding, the second plaintiff in these proceedings, was set up, and obtained the exclusive licence over all trade marks 1 – 10 held by Itôchu. In 2005, BMI with the implied consent of Itôchu granted a sole licence of the above trade marks to the third plaintiff Converse Footwear. In 2008, the company Converse Japan, assistant to the plaintiff, took on the rights and obligations of BMI.

The defendant Royal since April 2003 has imported and sold shoes and clothing bearing the trade mark "Converse". These goods originate from the new Converse US. The goods sold by the plaintiffs under the trade mark Converse also originated from the new Converse US until the trade marks in question were transferred to Itôchû. Those currently sold by the plaintiffs under this trade mark originate from the same production site as goods sold by the new Converse US, and the trade marks at issue are attached to the goods by a licensee of the new Converse US, Zukihoshi Kasei. Zukihoshi had an agreement with a 99% subsidiary of the new Converse US, TD, about the importation of shoes to Japan. By the end of 2005, a new agreement was made that required minimum sales targets which under this agreement were guaranteed by Itôchû. The goods sold in Japan under the trade mark "Converse" have achieved a certain reputation. Based on the trade mark transfer contract of 24 February 2001, Itôchû received a number of shares in the new Converse US that two years later were entirely sold to Nike.

The plaintiffs request injunctive relief and damages based on an infringement of the above trade marks (plaintiff 1), and damage to the exclusive licensing agreement (plaintiffs 2, 3 and assistant). The defendants counterclaim that since Converse has become a well-known trade mark for Converse US, the plaintiffs by selling their goods create reverse confusion, and further cause damages by alleging to the defendant's customers that the defendant has no right to import Converse goods (both actionable under the Unfair Competition Prevention Act), further that the plaintiffs unfairly try to prevent parallel imports, actionable under the Antimonopoly Act.

The Tokyo District Court in first instance (decision of 23 July 2009) granted the plaintiff's request for injunctive relief, awarded damages to the third plaintiff New Converse Japan in the amount of 566 million Yen and the assistant in the amount of 225 million yen, and dismissed the counterclaim in its entirety. It argued as follows:

"REASONS:

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IV. REASONS FOR THE DECISION

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2. About the estoppel of lawful parallel importation

(1) The importation of goods bearing an identical or similar mark with one registered in Japan by a third person without the trade mark owner's consent infringes the trade mark owner's rights under Secs. 2(3), 25 and 37 Trade Mark Act. Yet such importation is not unlawful as long as it concerns the parallel importation of so-called original goods, if (1) the sign is used abroad by the trade mark owner or its licensee, (2) if the owner of the domestic and foreign marks is the same, or if there is a legal or economic identity and the mark shows the same origin, and (3) if the Japanese owner of the mark

directly or indirectly undertakes a quality control of the goods and the quality of the foreign goods equals those of the domestic goods (Decision of the Supreme Court, 27 February 2003, 35 IIC 216 (2004) – “Fred Perry III”). The purpose of the Trade Mark Act is “by protecting trade marks to maintain the economic reputation of its users, to contribute to the development of industry and to protect the interests of consumers” (Trade Mark Act Sec. 1). The parallel importation of authentic goods does not contravene any of the trade mark’s functions of origin or quality, and does not impede the economic reputation of the users of trade marks or the interests of consumers. For these reasons, parallel importation is not unlawful.

(2) Concerning the identity of foreign and domestic owner

a. “A legally identical relationship” means that the owner of the foreign and the domestic trade mark are like parent and subsidiary, or that they have the relationship of principal and agent. And an “economically identical relationship” means that the owners of the foreign and domestic mark are part of the same enterprise and share a close relationship with each other.

b. First, we have to assess whether the plaintiff Itôchû and the new Converse US were legally identical. From the facts we note that the plaintiff Itôchû had invested in the new Converse US. Yet this only amounted to 15% of the share capital, and subsequently on 5 September 2003, all the shares were transferred to Nike US. Thereafter, there was no financial connection between the plaintiff Itôchû and the new Converse US. Currently, the plaintiff Itôchû sells the shoes under the trade mark Converse through its subsidiary company BMI, now Converse Japan, and through Converse Footwear. And the plaintiff Itôchû does not directly import or sell goods originating from the new Converse US. Thus, the plaintiff Itôchû and the company new Converse US are not structured as parent and subsidiary, and they are not related via an agency relationship. Thus, they cannot be defined as legally identical.

c. Secondly, we have to examine whether the plaintiff Itôchû and the company new Converse US can be defined as identical in economic terms, and if they belong to the same group of companies and enjoy a close relationship. According to the plaintiff, the plaintiff Itôchû and the company new Converse US can be called identical in economic terms due to a contract regarding common marketing and quality control, and because the plaintiff leaves the quality control to a subsidiary of the new Converse US, and because the goods of the plaintiff just as the goods of the new Converse US are produced in the same factory.

∞. The defendant has alleged the existence of a common marketing agreement. But this is not supported by the facts of the case. Rather, paragraph 1 of the common marketing agreement only stipulates a mutual obligation of marketing. No such activities as advertising or press releases are listed. The first sentence of paragraph 2 of the agreement stipulates that the new Converse US provides the plaintiff Itôchû with information about its shoes. But such information only relates to fashion and does not stipulate any obligation related to shoes. Furthermore, according to paragraph 2 subsection 5,

there is no obligation to make use of such information. Thus, there is no relationship between the two parties regarding the quality of shoes. Paragraph 3 specifies that the parties can visit and inspect their respective premises. But the purpose of this is to obtain knowledge about the other's operation or goods, or to obtain technical support of information rather than a common quality control. Paragraph 4 only specifies that both can mutually agree on a future production of clothing or shoes in the same factory. But actually, there is no such agreement. The marketing sessions mentioned in paragraph 5 are in order to develop common interests such as marketing strategies, new manufacturing technologies, design and product development competitors, information regarding the counterfeiting of Converse marks and similar problems. Again, there is no common obligation for a quality control. Regarding the contents of the common marketing agreement, there is only an obligation for common marketing, but not for quality control. The contents of the agreement concern the exchange of useful information, etc., and presupposes that the plaintiff Itôchû and the new Converse US are different economic entities. The existence of a common contract is no circumstance that would make the new Converse US and the plaintiff Itôchû a common economic entity.

β. The defendant has alleged that the plaintiff Converse Footwear leaves it to a subsidiary of the new Converse US to control the quality of the goods. All goods of the plaintiff as well as the new Converse US would be manufactured in the same factory.

According to the above, the plaintiff Converse Footwear left the quality control to the company TD, which was a subsidiary of the new Converse US, and the goods of both the plaintiff and the new Converse US were produced in the same factory. But according to the above facts, the plaintiff Converse Footwear undertakes a quality control according to its own standards. Thus, even if the products of the plaintiff and the new Converse US are produced in the same factory, one cannot affirm that they derive from the same origin. There is no proof of a manufacture of the goods in identical fashion. The goods of the plaintiff and those of the new Converse US are not subject to the same quality control. The facts are therefore not such that this would allow the conclusion that the plaintiff Itôchû and the new Converse US are economically identical.

γ. As mentioned above, the agreement concerning common marketing only envisaged an obligation of a marketing cooperation. The goods of the plaintiff and those of the new Converse US are not subject to a common quality control. The two entities do not enjoy such a close relationship that they form the same group of undertakings. For this reason, it is not appropriate to regard them as economically identical.

d. As mentioned above, it is not appropriate to define the relationship between the plaintiff Itôchû, that is, the Japanese trade mark owner, and the new Converse US, that is, the US trade mark owner, as one of identity. The facts do not support the assumption of such identity.

e. The defendant alleges that the trade mark Converse is known worldwide, and that the plaintiff Itôchû after the acquisition of the trade mark has no original goodwill, and that the consumer associates the origin of the mark with the new Converse US. Therefore, the parallel importation of goods originating from the new Converse US would

not do any harm to the function of origin, even if there was no identity of origin. But the trade mark's function of indicating an origin is meant to indicate that the goods or services for which the same mark is used, have the same origin. The protected function of origin under the Trade Mark Act refers to the trade mark owner. In the case at issue, the origin of the trade mark is meant to indicate the plaintiff Itôchû as proprietor of the trade mark. Thus, import and sale of shoes originating from the new Converse and bearing an identical or similar mark compromises the origin function of the trade mark, as the plaintiff Itôchû and the new Converse US are not an identical entity, as has been explained above.

Even if the allegation of the defendant were correct that the trade mark Converse was well-known world-wide and that consumers associated the origin with the new Converse US, it must be said that the Trade Mark Act protects the origin in the trade mark owner Itôchû. It is the registered owner of the trade mark whose origin is protected under the Trade Mark Act even if the owner of the mark does not enjoy any original goodwill and the consumer associates a different origin therewith. After all, registration of the trade mark does not require prior use and the owners of trade marks can request injunctive relief against infringement even without using the mark. Under factual aspects, it is not an appropriate interpretation of trade mark law to make the protection of the origin function dependent upon such a vague parameter as the development of original goodwill or recognition of consumers.

For the above reasons, the arguments advanced by the defendant are not convincing.

(3) On the issue of quality control

As mentioned above, the contract on joint marketing does not refer to the quality of the goods, and there is no contract between the plaintiff Itôchû and the new Converse US that concerns the quality control. Rather, the plaintiff Converse Footwear carries out examination and quality control according to its own original standard. For these reasons, the plaintiff Itôchû is not in a position to directly or indirectly control the quality [of goods originating from the new Converse]. And in this respect, it does not matter whether the goods of the plaintiff and those of the new Converse can be actually distinguished. This simply does not comply with the requirement of quality control.

(4) For the above reasons, the facts do not support a commercial identity or quality control. For this reason, the estoppel of parallel importation cannot be upheld.”

Upon appeal by the defendant and cross-appeal by the plaintiffs, the Tokyo High Court modified the damage award to Converse Footwear (875 million Yen) and Converse Japan (293 million Yen), upheld the injunctive relief and otherwise dismissed the appeal and cross-appeal. In its reasons, the High Court by and large endorsed the reasons of the lower court, and modified only parts of the decision.

Reasons

“1. On the identity of the foreign and domestic right owner:

It is the function of the trade mark right to confer to the Japanese trade mark owner an exclusive right of use over the specific mark in question. The origin that is protected by trade mark law refers to the owner of the registered Japanese trade mark. Thus, even though in the case at issue there occurred a transfer of the trade mark with the result that under the circumstances, consumers did not associate the assistant to the suit (Converse Japan) with the origin of the trade marked goods, this does not mean that the seller of the mark is naturally entitled to continue using the latter. Accordingly, vendor and purchaser of the mark are not as such “legally or economically the same person” or have such relationship, and the defendant’s argument that the vendor of the mark (New Converse US) must be defined as the trade mark’s origin must fail.

2. On the economic identity between the first plaintiff and the new Converse US

Looking at the contract between the plaintiffs and the company TD, it cannot be ascertained that the latter entrusted the plaintiffs with monitoring the production of Converse shoes. Based on the joint agreement on monitoring production of 21 February 2008, even though TD was entrusted with monitoring the quality of the plaintiff’s goods, the plaintiffs have not been entrusted with monitoring the quality of the goods produced by the new Converse US. Even if TD had been entrusted with monitoring the quality of goods, there is no economic identity between the first plaintiff and the new Converse Japan.

3. On the legal identity between the first plaintiff and the New Converse

After the first plaintiff obtained the trade marks 1 – 3, 6, 9 and 10, Tsukihoshi Kasei and the third plaintiff imported and sold the shoes of the new Converse US in accordance with the licensing agreement with the first and the second plaintiff (that is to say, shoes designed partly or entirely by the new Converse US or its subsidiaries), yet the percentage of these shoes compared to the total of “Converse” shoes sold by the plaintiffs remained at a rather low percentage level, and the majority of “Converse” shoes sold by the plaintiffs did not originate from the new Converse US. Apart from that, the first plaintiff between 24 February 2001 and 5 September 2003 owned a certain amount of shares in the new Converse US.

According to the above, the joint marketing agreement between the first plaintiff and the new Converse US did not envisage a joint production of goods, or the necessity of common designs or a minimum quality level for the goods. Thus, there was neither a joint sales outlet or a common subsidiary between the first plaintiff and the new Converse US, and therefore one cannot qualify the two as a common legal entity.

In this respect, it cannot be established that a certain percentage of the Converse shoes imported and sold by Tsukihoshi Kasei or the plaintiff originate from the TD company, as there is no sufficient evidence for this. Moreover, that Tsukihoshi or the assistant to the suit under a contract with TD have bought Converse shoes originating from the TD company must be qualified in that the final quality control is up to Tsukihoshi or the assistant to the suit, and therefore even if they had bought a certain amount, this would not amount to a common legal entity between the plaintiffs and the new Converse US....

According to the defendant, in case the trade mark was transferred, the registered trade mark owner under the Trade Mark Act was considered in a position to trade under the mark and regarded as the protected origin. On the other hand, Converse had become a well-known trade mark worldwide, and in addition, in the case at issue, exceptionally, the first plaintiff as the registered trade mark owner lacked what trade mark law regarded as essential for the protection of origin, that is, any sort of goodwill. But even if this was so, for one it cannot be acknowledged that the first plaintiff and the new Converse US share the relationship of having a common sales agent. Second, it cannot be acknowledged that the common marketing agreement between the first plaintiff and the new Converse US has established a common quality standard, or that the first plaintiff was acting under the quality supervision of the new Converse US. Third, whatever the facts or concept about goodwill, this issue is all but clear and the reasoning of the defendant cannot be endorsed. Even apart from that, according to the understanding of our trade mark law, the registered trade mark owner is considered as the origin of the trade marks at issue, and the above argument that for the protection of an origin under trade mark law, a separate goodwill would be required, cannot be endorsed.

4. On the estoppel of abuse of rights

In respect of the trade marks at issue, the origin protected under trade mark law in this case is the registered trade mark owner. To the extent that the first plaintiff uses the mark, or that someone else uses the mark with the first plaintiff's consent, there can be no confusion regarding the origin, and the use of the trade marks at issue cannot be called unlawful. Further, even if the shoes of the first plaintiff and those of the new Converse US can be distinguished by their labels, the trade mark used by the defendant for the importation of shoes by the new Converse US is identical or similar to the trade marks at issue, yet does not originate from the first plaintiff. Thus, importing goods with a trade mark that identifies the first plaintiff as the origin of such goods compromises the trade mark's function of properly indicating an origin, and, as the first plaintiff does not supervise the quality of goods originating from the new Converse US, also compromises the trade marks' function of conferring a certain quality.

Accordingly, the requirement of identity, and of quality management, are absent for the goods the defendant has parallel-imported, and such parallel importation therefore is

unlawful. Thus, there is no reason why the first plaintiff should not be entitled to request cessation of use from the defendant.”

Translated from the original by *Christopher Heath*

SUMMARY

The Intellectual Property High Court rendered a decision on 27 April 2010 that deals with trade marks of the well known US producer of casual clothing and footwear “Converse”. The Court stated that the importation of goods to Japan bearing a trade mark identical to a Japanese trade mark is unlawful unless the domestic and foreign trade mark owners qualify as one legal or economic entity, or the Japanese trade mark owner has supervised the quality of the goods imported to Japan. An appeal is pending before the Supreme Court.

(The Editors)

ZUSAMMENFASSUNG

Das Obergericht für geistiges Eigentum hat am 27. April 2010 eine Entscheidung verkündet, in der es um die Warenzeichen des bekannten US-amerikanischen Herstellers von Freizeitkleidung und Schuhwerk „Converse“ geht. Das Obergericht hat festgestellt, dass der Import von Waren nach Japan, deren Warenzeichen mit einem in Japan verwendeten identisch sind, gesetzeswidrig ist, es sei denn, bei dem ausländischen und dem japanischen Inhaber der Warenzeichen handelt es sich eine rechtliche oder wirtschaftliche Einheit oder der japanische Warenzeicheninhaber hat die Qualität der nach Japan importierten Waren überwacht. Eine Revision ist beim Obersten Gerichtshof anhängig.

(d. Red.)