

Exhaustion of IP Rights in Japan

(Part 2)

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Forewords

This article is Part 2, the final part, in a series of articles. Issues related to repair and remanufacturing of products protected by intellectual property rights are discussed. In Part 1, patent exhaustion was discussed. In this Part 2, the other areas of intellectual property laws such as trademark, unfair competition, design and copyright laws will be discussed with some short remarks about recycling in general in Japan discussed at the end.

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2. Design

The Design Act is separately provided from the Patent Act in Japan. Industrial designs are protected, not by the Patent Act, but by separate statutory provisions in the Design Act. Once an application for design registration is filed, it will be examined by the examiner at the JPO. If the subject design is found to have novelty and creative difficulty over prior art, and otherwise satisfy the registrability requirements stipulated in the Design Act as a result of substantive examination, the design is registered. The term of the registration is 20 years from the date of registration. Basically, it is believed that the same legal principles are applicable to design registrations as with patents. Only a few court decisions exist on design registrations, and the exhaustion doctrine developed for patents is equally applicable to design registrations.

3. Trademark and Unfair Competition

In General

Trademark Act

Trademarks are commonly noted in Japan to have, among other functions, two major functions: (1) to have consumers or users recognize that products having a certain trademark come from a certain source (function of indicating the origin), and (2) to show the homogeneity of products to which a certain trademark is attached (function of quality

assurance). If these functions of trademarks are not harmed, it is possible that no trademark infringement is found by the court.

Generally, it is believed that a trademark registration would give the owner rights to use the registered mark on the designated goods and/or services and to prohibit a third party from using a mark that is either identical or similar to the registered mark on goods/services identical or similar to the designated goods/services. The positive rights to use have a fairly firm basis in Japanese trademark laws.

Unfair Competition Prevention Act

The Unfair Competition Prevention Act (UCPA) is, by preventing or stopping acts of unfair competition, to protect commercial interests of businesses and to promote fair competition. While trademark protection is not available unless a trademark is registered at the Japan Patent Office, the UCPA allows the court to issue orders or decisions to protect a party from acts of unfair competitions without any prior procedures with government agencies.

Also, the UCPA protects the appearance of products from direct copying of the appearance for the three years from the first sale in Japan.¹ This is to supplement regular design protection for three years from the initial sale in Japan, and it is commonly believed that such protection is available when the appearance of a product is exactly imitated by a third party, while design protection is slightly more flexible.

Court Cases

In the following, various aspects of trademark infringement are examined with respect to repackaging and refurbishing, so that the interplay between the functions of trademarks and trademark infringement is clarified. Court decisions are categorized in terms of: repackaging, modification or alteration to genuine products, sale of second hand products, resale of products sold by the trademark owner, and circulation of products against the intention of the trademark owner.

A. Repackaging

If a third party purchases products from the trademark owner, repackages in small portions and sell them with the original trademark without any authorization, it is often considered as trademark infringement.

A-1 HERSHEY'S Case

This is a criminal case² in which the offender repackaged large packages of cocoa sold for commercial use by the trademark owner into small portions and attached the same mark as the registered trademark on packages and labels for sale.

The Fukuoka High Court pointed out that cocoa might change its quality and foreign objects might mix into cocoa by repackaging, the offender's acts were determined to harm the goodwill of the trademark owner and the interests of consumers to find trademark infringement.

A-2 STP Case

This is a preliminary injunction case³ in which drum cans of oil treatment products sold by the trademark owner were parallel imported from the U.S. and repackaged into 10-ounce cans which had the same appearance and trademark as with the trademark owner's products. The Osaka District Court noted that even if products are genuine if anyone can freely attach a registered trademark to such products, the basis for goodwill of the trademark owner is lost and the trademark does not function as intended. While the trademark owner was expecting that drum can products would eventually be repackaged, the owner did not authorize the use of the registered trademark. The court found infringement.

A-3 MAGAMP K Case⁴

MAGAMP is a popular fertilizer brand for gardening. The registered trademark was "MAGAMP". The defendant bought large packages of the fertilizer sold by the trademark owner and repackaged them into small bags for sale. The defendant received two warning letters from the plaintiff and changed the manner of its using marks similar to the registered mark twice. Initially, the defendant had "MAGAMP K" hand written on small plastic bags of the fertilizer. After the first warning, the defendant displayed hand written price notices which said, for example, "MAGAMP K, 500g, 880 yen". Each package sold had no marking. After the second warning, the defendant displayed hand written notices which said "MAGAMP K, repackaged from original package, 500g, 880 yen, MAGAMP K (500g), 880 yen for one bag and 1480 yen for two bags" together with the large package of the plaintiff. Again, no marks were attached to the repackaged products.

The court found trademark infringement on all three types of the alleged acts. The court made interesting remarks about the defendant's stripping the registered mark away from original products as follows:

"[R]egardless of whether the alleged products were genuine or not, and regardless of whether any possibility of changing the quality existed, the acts of repackaging products the trademark owner duly disseminated with the registered trademark into smaller packages without permission from the trademark owner and placing repackaged products with the registered trademark or a similar mark in the market is nothing but stripping away the registered trademark from the designated goods while in distribution channels. Such act diminishes the trademark owner's rights to monopolize the use of the registered trademark and diminishes the function of the trademark as a marking of products. Such act may possibly deceive the public and harm interest of consumers, and therefore it is trademark infringement."

While the above remarks came only from a district court, they are of interest to us.

B. Modification or alteration to genuine products

B-1 Nintendo Case⁵

In this case, the defendant made modifications to genuine products of the plaintiff and sold modified products with the original registered trademark attached. The defendant argued no confusion as to their origin occurred among consumers because it marked its modified products with an additional marking of HACKER JUNIOR together with the original registered trademark, and issued a warrantee certificate which had the name of the product as HACKER JUNIOR with its trade name, address and phone number.

The court found infringement because consumers may mistake the modified products were coming from the plaintiff because the name of the plaintiff, Nintendo, was widely known and remained on the products, and the marking of HACKER JUNIOR was not sufficient to dispel such confusion.

B-2 Callaway Case⁶

The plaintiff had its contractors make parts of golf clubs and assembled them into final products. The defendant bought club heads having the plaintiff's registered trademark from one of the contractors and sold them without any modification or with its own shafts and other parts attached to the club heads. The court found infringement, reasoning that the products the defendant sold were placed in the market against the intention of the plaintiff and damaged the function of indicating the origin and quality assurance the trademark had.

B-3 After Diamond Case⁷

The defendant bought watches of the plaintiff, Cartier, and added pieces of diamond on the dial face. The defendant had an indication of "After Diamond" in its advertising. The court pointed out that confusion was likely and found trademark infringement.

B-4 Ink Bottle Case⁸

The defendant obtained empty ink bottles (containers) from users of the printing machines of the plaintiff. The defendant refilled the ink bottles and sold them to users in general (as opposed to returning them to original users who gave empty bottles to the defendant). The defendant did nothing to the ink bottles except refilling new ink, so the plaintiff's registered trademark remained on the refilled bottles. The Tokyo High Court found trademark infringement.

C. Sale of second hand products

C-1 Healthtron Case⁹

This is a trademark infringement and unfair competition violation case. The trademark owner had a trademark registration for "Healthtron" in Japanese scripts, and made and sold expensive chairs for static electricity therapy under the name of Healthtron. The defendant placed advertisements in the Internet and other media using "Healthtron" so as to sell second-hand Healthtron products. The plaintiff sought an injunction to stop the defendant's use of Healthtron.

The court found no trademark infringement and no unfair competition, and rejected the plaintiff's claim.

From the evidence, it was clear that the defendant had terms "used" and "second hand" in its advertisements, and consumers

could recognize the defendant was selling used products. Consumers would not recognize that the defendant was the source of the plaintiff's products. The acts of the defendant do not cause any confusion as to the origin and do not harm the function of indicating the origin the trademark has. The court found no substantive illegality in the defendant's acts.

As the plaintiff demanded an injunction for a unfair competition violation under Article 2(1)(i),¹⁰ the court found that "Healthtron" was well known as the plaintiff's products. By using "Healthtron" in its advertisements, however, the defendant did not cause any confusion as to the relationship between the plaintiff and defendant. The court found not confusion, and rejected the plaintiff's demand.

D. Resale of products sold by the trademark owner

D-1 Hi-me Case¹¹

A dealer bought Hi-me products, a food flavoring powder made and sold by the plaintiff, Ajinomoto, at discounted prices and packed into cardboard boxes on which the same trademark as that appearing on the product was printed for resale as if they were brand new. The court found trademark infringement against the dealer.

E. Circulation of products against the intention of the trademark owner

E-1 Y's Case¹²

The products the defendant sold were genuinely made by the trademark owner, Y's for Men, but were samples for display at trade shows, rejected products, and dead stock which the plaintiff did not intend to sell. The court found trademark infringement against the defendant who sold such products.

E-2 FRED PERRY Case¹³

A licensee in Singapore, who had authorization from the trademark owner of the trademark FRED PERRY, asked a factory in China to make products with the FRED PERRY trademark in violation of the license agreement which restricted places of manufacture and sale (such restricted places did not include Japan nor China), and prohibited contracting manufacturing out without authorization of the licensor. In Japan, the defendant imported and sold products made in China having the FRED PERRY logo. The defendant argued the products were genuine and parallel importation of genuine products was permissible under the Parker decision.¹⁴

The Supreme Court of Japan stated with respect to permissible parallel importation as follows:

The act of importing products which are identical to goods designated in the trademark registration in Japan and which have a trademark identical to the registered trademark, if done by a party other than the trademark owner without authorization, is a trademark infringement (Articles 2(3) and 25 of the Trademark Act).

However, even if the defendant's act is such importation, it should be recognized as the parallel importation of genuine products without any substantive illegality for a trademark infringement, if the following three conditions are met: (1) the

trademark in question is lawfully attached to products by the trademark owner in a foreign country or its licensee, (2) the trademark owner in the foreign country is identical, or can be considered as identical from a legal and economic point of view, with the trademark owner in Japan, so that the trademark identifies the same origin with the trademark in Japan, and (3) the trademark owner is capable of, directly or indirectly, controlling the quality of product in dispute, so that the quality of products in dispute and that of products to which the trademark owner in Japan attached the trademark are considered not to have any substantive differences.

This is because while Article 1 of the Trademark Act stipulates that: "the purpose of this Act is, through the protection of trademarks, to ensure the maintenance of business confidence of persons who use trademarks and thereby to contribute to the development of the industry and to protect the interests of consumers," the so-called parallel importation of genuine products which satisfies the above criteria does not harm the function of indicating the origin and that of quality assurance which are inherent functions of trademarks, and also is not injurious to commercial goodwill of the party which uses the trademark and interests of consumers. The parallel importation therefore lacks substantive illegality.

In conclusion, the Supreme Court noted that the functions of indicating the origin and assuring the quality were harmed by the defendant's acts in this case. The court found trademark infringement and maintained the original decision.

E-3 Callaway Case

See B-2 above.

4. Copyright

Under the Japanese laws, the copyright protection is given to expressions as oppose to ideas. While technical ideas are protected by the Patent Act, expressions having a low threshold of creativity are protected by the Copyright Act. When it comes to such items like package inserts for drugs or medical devices, it is generally believed that the Copyright Act does not protect informational contents on facts,¹⁵ but it protects the documents to the extent that such documents show some creativity beyond information that they convey. Most likely, reproducing information in the package inserts does not constitute a copyright infringement.

Also, the copyright protection over industrial products is very limited in Japan, since both design and unfair competition protections are available over industrial products. In a recent court decision which attracted much attention, designer baby chairs were noted to be protectable under the Copyright Act by the IP High Court.¹⁶ This decision attracted attention simply because it was believed that industrial products are not protected by the Copyright Act according to recent court decisions and academic theories. The IP High Court noted that if the product shows such esthetic creativity that it can be a subject of appreciation as a piece of art, it might be protected by the Copyright Act. However, the court denied the copyright protection of the so-called Tripp Trapp chair because the chair was not that artistic. Generally, medical devices are protectable under the Copyright Act unless they happen to be highly artistic.

5. Other potential issues

Recycling is, of course, nothing new in Japan. Used parts of automobiles and other machines have long been recirculated and reused with or without repair or refurbishment. Just to note that recycling is common in Japan, the percentages of recycling of paper or beer bottles are as high as 65-90%. In order to find out the current situation on recycling, two aspects should be focused: associations for promotion of recycling, and statutory laws concerning recycling. In this regard, the following two may be most representative.

(1) Japan Automotive Parts Recyclers Association

This association was founded in November 1995 as the Japan Council of Automotive Recycle Parts Sales Organizations and reorganized as a non-profit organization in November 2010. It currently has, as its members, twelve organizations and 500 companies which deal with the circulation of reuse and rebuilt parts for automotive repairs.

According to its web site information, its activities are based on the statutory laws such as the Basic Act Law for Establishing the Recycling-based Society, the Act for Promoting Effective Use of Resources, and the Act on Recycling, etc. of End-of-Life Vehicles. It lobbies with the government and other related organizations, and promotes the use of recycled parts in Japan.

This association has no English language website although it has a Japanese language site.

(2) Basic Law on Establishing a Sound Material-Cycle Society

The Basic Law on Establishing a Sound Material-Cycle Society was introduced in 2000 in order to establish a framework for the development of recycling businesses in Japan. An English translation of this law can be found at the following link.

<http://www.japaneselawtranslation.go.jp/law/detail/?id=2042&vm=04&re=01>

Notes:

- 1) The UCPA stipulates the copying of a product design as an act of unfair competition in its Article 2(1)(iii) as follows: "assignment, lease, display for the purpose of assignment or lease, export or import of goods which imitate the form of another person's goods (excluding forms indispensable to ensuring the functioning of said goods)". Article 19(1)(v) of the same Act stipulates that: "exclusion from protection is applicable to acts of "unfair competition set forth in Article 2, paragraph (1), item (iii) which falls in any of the following: (a) assignment, lease, display for the purpose of assignment or lease, export or import of goods that imitate the configuration of goods for which three years have elapsed from the day on which they were first sold in Japan; or (b) assignment, lease, display for the purpose of assignment or lease, export or import of goods that imitate the configuration of another person's goods (with no knowledge or lack of knowledge due to gross negligence that the goods imitated the configuration of another person's goods at the time of the assignment)."
- 2) Fukuoka High Court, March 4, 1986
- 3) Osaka District Court, August 4, 1976
- 4) Osaka District Court, February 24, 1994
- 5) Tokyo District Court, May 27, 1992, case No. 1988 (wa)1607
- 6) Tokyo High Court, April 25, 2000, case No. 1999(ne)836
- 7) Tokyo District Court, December 20, 2005, case No. 2005 (wa)8928
- 8) Tokyo High Court, August 31, 2004, case No. 2003(ne)899. The THC reversed the original court's finding of non-infringement.
- 9) Osaka District Court, March 20, 2003, case No. 2002 (wa)10309
- 10) Article 2(1)(i) of the UCPA stipulates, as an act of unfair competition, "creation of confusion with another person's goods or business by use of an indication of goods, etc. (which shall mean a name, trade name, trademark, mark, container or package, or any other indication of goods or trade pertaining to a person's business; the same shall apply hereinafter) that is identical or similar to an indication of goods, et c. well-known among consumers used by said person, or assignment, delivery, display for the purpose of assignment or delivery, export, import or provision through a telecommunications line of goods bearing the such an indication of goods, etc." The keywords are "well known among consumers" and "confusion" as essential requirements for this type of unfair competition.
- 11) Supreme Court, July 20, 1971, case No. 1969(a)2117, a criminal case
- 12) Osaka District Court, July 11, 1995, case No. 1993 (wa)11287
- 13) Supreme Court, February 27, 2003, case No. 2002(ju)1100
- 14) Osaka District Court, February 27, 1970, case No. 1968 (wa)7003. In this case, parallel importation of fountain pens from Hong Kong made by the Parker Pen Company, who owned the "PARKER" trademark in Japan, was allowed. This is the first court case in which the allowability of parallel importation of genuine products was considered. In this decision, the idea of exhaustion was denied in view of the facts presented in the case, and the well-recognized functions of trademarks were given more weight. For parallel importation to be allowed without trademark infringement, the court set forth the following three requirements:
 - (1) the imported products are genuine and the trademark is duly attached to the products,
 - (2) the owner of the foreign trademark and that of the Japanese trademark are the same or have a legal and economic relationship that makes it possible to view them as the same, and
 - (3) the imported products have the same quality as products sold by the domestic trademark owner.
- 15) In the Legal Course Material Manuscript Case (IP High Court, December 11, 2012, case No. 2012(ne)10061), the court stated as follows: "As regards course materials such as the product in this case, if portions that are identical to an existing literal work or a work created relying on it relate to meanings or contents of relevant statutory provisions or doctrines, general interpretation or information that is naturally derived therefrom, operations in practice, matters that are naturally derived from historical facts, or common expressions or explanations of objective facts, it would not be possible to express individual characteristics, and such portions would lack creativity in their expression. Since the identity is not found in portions that are expressed with creativity, unless discussions, explanations, and summaries made from a unique view point are found or unique expressions are found, no infringement is found on copyrights or rights of adaptation concerning existing literal works." The court found no infringement by the plaintiff-appellee who copied portions of articles that were available on the Internet.
- 16) Tripp Trapp Case, April 14, 2015, IP High Court, case No. 2014(ne)1006