

## **Parallel Import Of Goods Bearing A Registered Trademark:**

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In the FRED PERRY case, HEI-14 (Ju) 1100, the Supreme Court upheld the Osaka High Court's decision stating that the import of goods, which a licensee had produced in breach of an agreement restricting production areas and prohibiting subcontracting of production, infringed a trademark right since the import of such goods could not be recognized as a parallel import of genuine goods.

Fred Perry Holdings (hereafter referred to as "FPH"), the worldwide owner of the very famous trademarks of "FRED PERRY" and "laurel device" (hereafter referred to as "FRED PERRY trademarks"), is a subsidiary of Hit Union K.K., the owner of the Japanese trademark right for FRED PERRY trademarks. FPH licensed a Singaporean company to produce goods bearing FRED PERRY trademarks only in Singapore, Malaysia, Brunei Darussalam and Indonesia. In the agreement, FPH prohibited subcontracting production of goods. However, the licensee subcontracted production of goods bearing FRED PERRY trademarks to a factory in the People's Republic of China, outside the authorized production areas.

In the Tokyo High Court and the Osaka High Court, the Japanese trademark owner and importers of the goods which were produced in breach of the agreement described above, argued as to whether the import of such goods infringed a trademark right.

The Tokyo High Court judged that, even if the imported goods were produced outside the authorized production areas, the import of such goods should still be permissible as a parallel import of genuine goods on condition that (a) trademark functions including a function for indicating a source of goods was not impaired, and (b) the quality of such goods was substantially identical with the quality of other genuine goods. The Tokyo High Court also stated that it was unreasonable that such goods were not recognized as genuine goods just because of the breach of the agreement, since such a breach should remain a private issue between the licensor and the licensee, and free movement of goods would be interrupted if the goods were not recognized as genuine goods.

In contrast to the Tokyo High Court's decision, the Osaka High Court judged that the import of goods in breach of the agreement infringed a trademark right. The Supreme Court subsequently affirmed the Osaka High Court's decision.

The Supreme Court indicated three criteria to determine whether the import of goods bearing a registered trademark was permissible as a parallel import of genuine goods. The Supreme Court stated that, since the import did not impair trademark functions for indicating the source of goods and guaranteeing the quality of goods, and did not harm the business reputation of the trademark owner or adversely affect the interests of consumers, the import of goods bearing a registered trademark were not substantially illegal with regard to the following three criteria:

- (1) Trademark is legally applied to imported goods by a foreign trademark owner or its licensee.
- (2) Trademark of imported goods indicates a source of goods identical with that indicated by a Japanese registered trademark under the circumstances that a foreign trademark owner is identical with a Japanese trademark owner, or can be equated with a Japanese trademark owner in view of legislation or economic relation.
- (3) It is possible for a Japanese trademark owner to directly or indirectly control the quality of imported goods, so the quality of imported goods is not substantially different from that of goods of a Japanese trademark owner.

Applying the above-indicated criteria to this case, the Supreme Court confirmed that the import of goods in breach of the agreement could not be recognized as a parallel import of genuine goods, and was not permissible for the following reasons:

- (a) In this case, a trademark function for indicating a source of goods was impaired since the imported goods were produced in breach of the agreement by the licensee.
- (b) It was likely that a trademark function for guaranteeing the quality of goods would be impaired, since the imported goods were not under the Japanese trademark owner's quality control. It was possible that there would be differences in quality between the imported goods and the Japanese trademark owner's goods.
- (c) If the import of goods in breach of the agreement were permissible, the business

reputation of FPS and Hit Union K.K. was likely to be harmed, and consumers' trust in the quality of goods bearing FRED PERRY trademarks was also likely to be adversely affected.

The Supreme Court's decision emphasized that the agreement for the restriction of production areas and for the prohibition of subcontracting production is very important in enabling the trademark owner to control the quality of goods, and the trademark function to effectively work.